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**SHORT SUPPLY/ANTI-INFLATION EXPORT CONTROLS**

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**HEARINGS**  
BEFORE THE  
**SUBCOMMITTEE ON INTERNATIONAL TRADE**  
OF THE  
**COMMITTEE ON BANKING AND CURRENCY**  
**HOUSE OF REPRESENTATIVES**

**NINETY-THIRD CONGRESS**

**FIRST SESSION**

**ON**

**H.R. 5769**

**A BILL TO AMEND THE EXPORT ADMINISTRATION ACT  
OF 1969, TO PROTECT THE DOMESTIC ECONOMY FROM THE  
EXCESSIVE DRAIN OF SCARCE MATERIALS AND COMMOD-  
ITIES AND TO REDUCE THE SERIOUS INFLATIONARY IM-  
PACT OF ABNORMAL FOREIGN DEMAND**

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**MARCH 21, 22, 23; AND MAY 15, 1973**

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Printed for the use of the  
Committee on Banking and Currency

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WASHINGTON : 1973

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# SHORT SUPPLY/ANTI-INFLATION EXPORT CONTROLS

WEDNESDAY, MARCH 21, 1973

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE COMMITTEE ON BANKING AND CURRENCY,  
Washington, D.C.

The subcommittee met, pursuant to call, at 10:15 a.m., in room 2128, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee) presiding.

Present: Representatives Ashley, Rees, St Germain, Hanna, Blackburn, Johnson, Frenzel, and Conlan.

Mr. ASHLEY. The subcommittee will come to order.

I think it is evident that we have a supply-demand crisis, not only as far as numbers are concerned but as far as members are concerned. We have got a Democratic caucus that is going on at this time and a Republican caucus.

We will proceed because the important part of this is not the presentation of testimony to two or three Members of Congress but the development of a record which will speak loud and clear when and if legislation gets to the floor of the House of Representatives.

Today we begin hearings on H.R. 5769, legislation designed to protect the domestic economy from the excessive export of materials and commodities in short supply, and thus to reduce the domestic inflationary impact of foreign demand.

[The text of H.R. 5769 follows:]

[H.R. 5769, 93d Cong., 1st sess.]

A BILL, To amend the Export Administration Act of 1969, to protect the domestic economy from the excessive drain of scarce materials and commodities and to reduce the serious inflationary impact of abnormal foreign demand

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,* That (a) section 4(e) of the Export Administration Act of 1969 (50 U.S.C. App. 2403(e)) is amended to read as follows:

"(e) The Secretary of Commerce, in consultation with appropriate United States Government departments and agencies and any appropriate technical advisory committee established under section 5(c) (2), shall undertake an investigation to determine which materials or commodities shall be subject to export controls because of the present or prospective domestic inflationary impact or short supply of such material or commodity in the absence of any such export control. The Secretary shall develop forecast indices of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users at stable prices."

(b) Section 5(c) of the Export Administration Act of 1969 (50 U.S.C. App. 2404(c)) is amended by redesignating paragraphs (2), (3), and (4) as paragraphs (3), (4), and (5), and—

(1) by inserting immediately after paragraph (1) the following new paragraph:

(1)

"(2) Upon written request by representatives of a substantial segment of any industry which processes materials or commodities which are subject to export controls or are being considered for such controls because of the present or prospective domestic inflationary impact or short supply of such materials or commodities in the absence of any such export controls, the Secretary of Commerce shall appoint a technical advisory committee for any grouping of such materials or commodities to evaluate technical advisory committee for any grouping of such materials or commodities to evaluate technical matters, licensing procedures, worldwide availability, and actual use of domestic production facilities and technology. Each such committee shall consist of representatives of United States industry and government. No person serving on any such committee who is representative of industry shall serve on such committee for more than two consecutive years. Nothing in this subsection shall prevent the Secretary from consulting, at any time, with any person representing industry or the general public regardless of whether such person is a member of a technical advisory committee. Members of the public shall be given a reasonable opportunity, pursuant to regulations prescribed by the Secretary of Commerce, to present evidence to such committees." ;

(2) in paragraph (4) thereof, as redesignated by this subsection, by striking out "such committee" and by inserting in lieu thereof "committee established under paragraph (1) or (2)"; and

(3) in paragraph (5) thereof, as redesignated by this subsection, by striking out "such committee" the first time it appears therein and inserting in lieu thereof "committee established under paragraph (1) or (2)".

Mr. ASHLEY. There is increasing evidence that home buyers, grocery shoppers, and workers are paying an increasing price for unstable market conditions in such important industries as lumber, shoes, and steel, and in the grain trade.

The Department of Commerce in its most recent quarterly report, for the fourth quarter of 1972, on the administration of export controls gives no evidence that it has even been monitoring the sales of a number of materials and commodities currently or prospectively in short supply. There is a need to give the administration a clear indication that it is the intent of Congress that the policy with respect to short supply, set forth in the Export Administration Act of 1969, be much more effectively implemented.

It is with this in mind that we are taking testimony regarding materials which periodically raise the issue of domestic dislocation affected in part by uncontrolled exports.

The first of these, which we are considering today, is softwood logs. We hope to learn from this testimony the effect of the uncontrolled export of this commodity on the current crisis in the lumber industry.

Last year this subcommittee recommended legislation which became law as the International Economic Policy Act of 1972. That act called for the achievement of consistency between domestic and international economic policy. There have been recent reports that difficulties in the domestic lumber industry have resulted, in a matter of months, in an increase in price some \$1,200 in the lumber components of an average home. To the degree that this situation is impacted by the uncontrolled export of timber, it is my intention to work, through amendment and oversight of the Export Administration Act, to diminish the impact.

Our witnesses today will be in panel form, the panel being comprised of George Martin, president of the National Association of Home Builders; Terry Mullin, National Lumber and Building Materials Dealers Association; C. W. Bingham, senior vice president, Weyerhaeuser Co., and Ralph Hodges, executive vice president of the National Forest Products Association.

Mr. Martin, if you will, lead off, please.

**STATEMENT OF GEORGE C. MARTIN, PRESIDENT, NATIONAL ASSOCIATION OF HOME BUILDERS; ACCOMPANIED BY HERBERT S. COLTON, GENERAL COUNSEL; CARL A. S. COAN, JR., LEGISLATIVE COUNSEL; AND MICHAEL SUMICHRAST, CHIEF ECONOMIST**

Mr. MARTIN. Thank you, Mr. Chairman, and members of the subcommittee.

I am a homebuilder from Louisville, Ky. I appear here today as president of the National Association of Home Builders. Our association has more than 67,000 members in 546 associations throughout the 50 States, Puerto Rico, and the Virgin Islands. I have with me Herbert S. Colton, our general counsel; Carl A. S. Coan, Jr., our legislative counsel; and Michael Sumichrast, our chief economist.

We welcome this opportunity to discuss the extremely serious problem posed by soaring prices and shortages in the supply of lumber and plywood, and its relation to the high level of exports of softwood logs and wood products. We hope that out of these hearings will come a sense of urgency for taking immediate and affirmative action to protect and enhance our Nation's finite supply of softwoods against unrestrained foreign demand.

Wood is the major construction material for all single family and many types of multifamily housing, representing the largest, single material cost item. About 43 percent of the softwood lumber and about 49 percent of the softwood plywood consumed in the United States is used in residential construction. Because lumber and plywood play such an important role in housing production, excessive prices and shortages of supply seriously jeopardize our industry's ability to fulfill the Nation's housing needs.

To fulfill this need, housing construction activity in recent years has reached record levels.

Mr. ASHLEY. Excuse me, Mr. Martin.

We have an acoustic problem here, and we do not have amplifiers or microphones; so, the press in the back are under that kind of a disability. So, if you will, raise your voice, we will appreciate it.

And let me say, gentlemen, that we are expecting you to submit for the record your prepared statements and to confine your remarks this morning—this being a panel—to something in the order of 10 minutes so that we will have a chance to question.

Mr. MARTIN. Mr. Chairman, I will do the best I can.

In 1971, almost 2.1 million housing units were begun; in 1972, there were almost 2.4 million housing starts and for 1973, projections indicate there will be more than 2 million units started. Housing starts since 1960 are shown in the table in appendix A attached to my prepared statement.

Added to this high level of domestic need for lumber and plywood is a substantial increase in exports of softwood logs and lumber to foreign countries, especially Japan, which is experiencing a housing boom and supply shortage. Appendix B contains a table of exports of softwood logs and shows that, in 1972, we exported 3.05 billion board feet, an increase of 26 percent over the previous year. This trend has continued, as January 1973 exports were 26 percent above those for January 1972. This high rate of exports took place in a year when residential construction activity was at its highest rate in history.

Had these logs not been exported, but, instead, converted to lumber in the United States, they would have increased our domestically produced supply of lumber by about 11.4 percent.

Softwood lumber exports have also increased, despite heavy demand and accelerating prices at home. As appendix C shows, average annual exports of softwood lumber jumped in 1972 by about 20 percent above the 1968-71 average.

The extremely critical nature of the supply problem is best illustrated by skyrocketing prices in stumpage at the mill and at the retail level.

#### STUMPAGE PRICES

Heavy demand for lumber and plywood and shortages of supply have a profound effect on the prices bid and paid for timber to be cut from Federal lands. In addition, rising stumpage prices provide an excellent barometer of rapidly rising prices for all timber, cut from both public and private lands.

Rapidly rising timber, lumber, and plywood prices also have the psychological effect of encouraging keen competition and abnormally high bids at Federal auctions and, as well, high offers for nonfederally owned timber. They also can encourage the withholding of private timber from sale and a slowdown in the cutting of already purchased Federal timber in anticipation of even higher future prices.

On an annual basis, stumpage price, shown in appendix D, jumped by 87 percent between 1971 and 1972. Monthly stumpage prices for 1972, listed in appendix E, in the Douglas-fir region of our Federal forests, provide a closer view of the increasing competition for a limited supply of logs. In 1 month, between November and December of 1972, the price jumped by 40 percent. From all reports, it was at this time that the Japanese vigorously moved into the purchase of American logs.

#### MILL PRICES

Another excellent indicator of heavy demand for lumber and plywood is the spiralling mill prices of these materials at west coast mills. Appendix F, listing monthly mill prices, shows a 104-percent increase in green Douglas-fir 2 by 4's in the 2 years between February 1971 and February 1973, a 90-percent increase in kiln dried hemlock and fir 2 by 4's during this period, and a 102-percent increase in 1/2-inch exterior plywood. Weekly prices for 1973 show that price increases have been accelerating. Appendix G shows that, since phase 3 which began in mid-January, kiln dried hemlock and fir 2 by 4's have increased 24 percent, 1/2-inch plywood, 17 percent, and 1/4 inch sanded plywood, 66 percent.

#### RETAIL PRICES

Even steeper increases have occurred at the retail level where most homebuilders acquire their lumber and plywood. We have been conducting a continuing survey for the past several weeks of the lumber price increases paid by our members since the advent of price controls in August 1971. Our members from all over the United States are reporting increases of tremendous proportions. For instance, Portland, Oreg., reported a 191-percent price increase in 1/2-inch plywood and an 80.4 percent in 2 by 4 studs. Ventura, Calif., reported a 94.5-

percent increase in ½-inch plywood and a 37.3-percent increase in 2 by 4's. Baltimore, Md., reported a 107.4-percent increase in ¾-inch plywood and a 71.9-percent increase in 2 by 4's. Chicago reported a 57.2-percent increase in ½-inch plywood and a 37-percent increase in 2 by 4's. Appendix H provides additional information on these and similar price increases from selected cities across the country.

All of these price increases have taken place during a period of wage and price controls under the Economic Stabilization Act of 1970. Price increases of lumber and plywood have soared far above those of other commodities. As appendix I illustrates, in January 1971, the wholesale price index for lumber and plywood was below that for all industrial commodities, including these products. By February 1973, the indexes for lumber and plywood were 55 percent and 53 percent, respectively, above that for all industrial commodities.

In addition, the price increase in lumber and plywood is far in excess of that for other materials which go into the structure of a home or apartment. Wholesale indexes for lumber and plywood as compared with those for all construction material, including these items, shown in appendix J, indicate an extremely disproportionate increase in the prices of lumber and plywood as compared with all construction materials.

Many steps can and must be taken to meet the long-range problem of timber supply. But the tremendously disruptive influence on the price and supply of lumber and plywood of the excess exports and foreign buying activity experienced in recent months poses a problem of such immense proportions that immediate action is imperative. With the need for these materials at home so severe and prices so totally out of hand, it is entirely inappropriate for our Nation to continue to permit such a significant portion of its annual timber and lumber production to be exported to other nations.

It makes no sense whatsoever to place ourselves in the position of being more and more heavily dependent on lumber imports to fulfill our needs. As shown in appendix K, softwood lumber imports now represent 22 percent of domestic consumption. Whereas we had been importing 4 to 5 billion board feet of softwood lumber in the 1960's, about 15 percent of our consumption, we imported 7.2 billion board feet in 1971 and nearly 9 billion in 1972.

The current lumber and plywood situation is a precise example of the type of problem the Export Administration Act of 1969 was designed to avoid. This law declares that:

It is the policy of the United States to use export controls to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand . . .

The present high rate of export of logs and lumber has, indeed, posed a severe drain on our scarce supply. Because the price of these products is heavily influenced by demand, the price has thus skyrocketed and caused a serious inflation in the price of housing for American families.

Appendix L provides a tabulation of the median price of single-family homes. It shows that, whereas in the first half of 1972, the median sales price averaged \$26,685, it began to rise considerably in midyear, reaching \$29,700 in December 1972. Because lumber and



plywood constitute such a large component of construction cost and because the prices of these materials have risen so far out of proportion to that of other components, we believe that this considerable rise in the median price of single-family housing can to a great extent be attributed to the increased cost of lumber and plywood.

Because of the severe impact on our industry of the recent substantial increase in softwood log and lumber exports, we met with the Secretary of Commerce on January 24 to point out the need for some action to be taken to curb these exports. This meeting was followed up by a formal request to the Secretary on January 25 to take such action under the Export Administration Act. A further request was made to the President on February 5. Today we have sent to the Secretary of Commerce a lengthy petition once again asking him to implement the Export Administration Act. We have provided you with a copy of our letter to the Secretary transmitting that petition.

In view of our so far unsuccessful, but we believe fully warranted, efforts to achieve relief under the Export Administration Act, the legislation before this subcommittee, H.R. 5769, amending the Export Administration Act of 1969, can make a significant contribution to our national need to preserve, for domestic use, materials which are in short supply. As currently written, the Export Administration Act offers little assistance in early identification of critical problem areas and preventing such crises as we are now experiencing with lumber and plywood. Studies by the Secretaries of Agriculture and Commerce, with technical advice provided by representatives of industry, would provide an excellent means for determining, in advance, what our domestic needs will be and thus, what export restraints should be imposed, if any. Along with forcecasting demands, we think it would be appropriate for the Secretary of Commerce also to look at the future supply of materials and commodities so that he may be better able to identify those requiring protection.

Authority to establish technical advisory committees with industry representatives would also be extremely beneficial. The meaning of the bill should, however, be clarified so as to leave no question as to whom may petition for the establishment of a technical advisory committee and may serve on the committee. This right must include those who use commodities and materials in the production of a final product, such as the homebuilding industry.

Furthermore, eligibility should not be limited to those industries involved with materials or commodities either subject to controls or under consideration for control. This seems to put the cart before the horse. It requires some action for consideration by Commerce before industries have had an opportunity to demonstrate that a technical advisory committee is necessary to aid in the review of the supply and demand for a certain commodity or material. The language of the bill should be amended to permit the representatives of any industry that can show domestic inflationary impact or shortage of supply due to exports to petition for the establishment of a technical advisory committee.

As the Export Administration Act now stands, it is unclear what extent of proof and how serious a crisis there must be in order for controls to be put into effect. Technical advisory committees are badly needed to investigate problems and hear complaints and testimony.

It seems to us, however, that all of the work that the committee might undertake could be lost or shunted aside unless H.R. 5769 goes one step further.

Following hearings and investigations by a technical advisory comsory committee, we believe the legislation should provide that the committee make a specific recommendation to the Secretary of Commerce as to whether or not exports of an item should be controlled. Furthermore, having made such a formal recommendation, the legislation should require that the Secretary rule on it and accompany his ruling with reasons to substantitate his decision.

The current predicament in which our industry finds itself, with outrageous prices and critical shortages of lumber and plywood, hobbling its ability to meet the Nation's housing needs, should be resolved as quickly as possible. If the bill before the subcommittee were now law, the extent and effect of lumber and timber exports could have long ago been fully aired and considered by a panel of Government and industrial advisers. The recommendations could then have been brought before the Secretary of Commerce for a ruling and an explanation for his actions or failures to act.

With these few changes in the amendments before this subcommittee, we believe that the Export Administration Act will be a much more effective tool for dealing with problems such as the lumber and plywood crisis we face today. Accordingly, we urge the subcommittee to act favorably on this bill with the changes we have suggested.

Thank you for this opportunity to appear here today.

Mr. MARTIN. Again, let me thank you Mr. Chairman, and I am sorry I took so long.

[Mr. Martin's prepared statement with attached appendixes, a letter to the Secretary of Commerce with an attached paper requesting curtailment of exports of softwood logs, lumber, and plywood on behalf of the National Association of Home Builders follows:]



# **NATIONAL ASSOCIATION OF HOME BUILDERS**

GEORGE C. MARTIN  
PRESIDENT

1625 L STREET, N.W., WASHINGTON, D. C. 20036

TELEX 89 2070

TELEPHONE (202) 737 7435

STATEMENT OF  
THE NATIONAL ASSOCIATION OF HOME BUILDERS  
before the  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
of the  
COMMITTEE ON BANKING AND CURRENCY  
UNITED STATES HOUSE OF REPRESENTATIVES  
on  
AMENDMENTS TO THE EXPORT ADMINISTRATION ACT OF 1969  
March 21, 1973

Mr. Chairman and Members of the Subcommittee:

My name is George C. Martin and I am a home builder from Louisville, Kentucky. I appear here today as President of the National Association of Home Builders. Our association has more than 67,000 members in 546 associations throughout the 50 states, Puerto Rico and the Virgin Islands. I have with me Herbert S. Colton, our General Counsel, and Carl A. S. Coan, Jr., our Legislative Counsel.

We welcome this opportunity to discuss the extremely serious problem posed by soaring prices and shortages in the supply of lumber and plywood, and its relation to the high level of exports of softwood logs and wood products. We hope that out of these hearings will come a sense of urgency for taking immediate and affirmative action to protect and enhance our nation's finite supply of softwoods against unrestrained foreign demand.

Wood is the major construction material for all single-family and many types of multifamily housing, representing the largest, single material cost item. About 43% of the softwood lumber and about 49% of the softwood plywood consumed in the United States is used in residential construction. Because lumber and plywood play such an important role in housing production, excessive prices and shortages of supply seriously jeopardize our industry's ability to fulfill the nation's housing needs.

To fulfill this need, housing construction activity in recent years has reached record levels. In 1971, almost 2.1 million housing units were begun; in 1972, there were almost 2.4 million housing starts and for 1973, projections indicate there will be more than 2.0 million units started. Housing starts since 1960 are shown in the table in Appendix A attached to this statement. All projections, as well as the national housing goals set out in the Housing and Urban Development Act of 1968, indicate a need for even higher production

levels than were achieved in the past two years.

Added to this high level of domestic need for lumber and plywood is a substantial increase in exports of softwood logs and lumber to foreign countries, especially Japan, which is experiencing a housing boom and supply shortage. Appendix B contains a table of exports of softwood logs and shows that, in 1972, we exported 3.05 billion board feet, an increase of 26% over the previous year. This trend has continued, as January 1973 exports were 26% above those for January 1972. This high rate of exports took place in a year when residential construction activity was at its highest rate in history.

Had these logs not been exported, but, instead, converted to lumber in the United States, they would have increased our domestically produced supply of lumber by about 11.4%. Had competition for domestic logs and lumber not been so keen because of high foreign demand, we believe, inflation in the price of these items would not have been so extreme.

Softwood lumber exports have also increased, despite heavy demand and accelerating prices at home. As Appendix C shows, average annual exports of softwood lumber jumped in 1972 by about 20% above the 1968 to 1971 average.

The extremely critical nature of the supply problem is best illustrated by skyrocketing prices in stumpage at the mill and at the retail level.

### Stumpage Prices

Heavy demand for lumber and plywood and shortages of supply have a profound effect on the prices bid and paid for timber to be cut from Federal lands. In addition, rising stumpage prices provide an excellent barometer of rapidly rising prices for all timber, cut from both public and private lands.

Rapidly rising timber, lumber and plywood prices also have the psychological effect of encouraging keen competition and abnormally high bids at Federal auctions and, as well, high offers for nonfederally owned timber. They also can encourage the withholding of private timber from sale and a slowdown in the cutting of already purchased Federal timber in anticipation of even higher future prices.

On an annual basis, stumpage price, shown in Appendix D, jumped by 87% between 1971 and 1972. Monthly stumpage prices for 1972, listed in Appendix E, in the Douglas Fir Region of our Federal forests, provide a closer view of the increasing competition for a limited supply of logs. In one month, between November and December of 1972, the price jumped by 40%. From all reports, it was at this time that the Japanese vigorously moved into the purchase of American logs.

### Mill Prices

Another excellent indicator of heavy demand for lumber and plywood is the spiralling mill prices of these materials at West Coast mills.

Appendix F, listing monthly mill prices, shows a 104% increase in Green Douglas Fir 2 x 4's in the two years between February 1971 and February 1973, a 90% increase in kiln dried Hemlock and Fir 2 x 4's during this period and a 102% increase in 1/2" exterior plywood. Weekly prices for 1973 show that price increases have been accelerating. Appendix G shows that, since Phase III which began in mid-January, kiln dried Hemlock and Fir 2 x 4's have increased 24%, 1/2" plywood, 17%, and 1/4" sanded plywood, 66%.

#### Retail Prices

Even steeper increases have occurred at the retail level where most home builders acquire their lumber and plywood. We have been conducting a continuing survey for the past several weeks of the lumber price increases paid by our members since the advent of price controls in August 1971. Our members from all over the United States are reporting increases of tremendous proportions. For instance, Portland, Oregon reported a 191% price increase in 1/2" plywood and an 80.4% increase in 2 x 4 studs. Ventura, California reported a 94.5% increase in 1/2" plywood and a 37.3% increase in 2 x 4's. Baltimore, Maryland reported a 107.4% increase in 3/8" plywood and a 71.9% increase in 2 x 4's. Chicago reported a 57.2% increase in 1/2" plywood and a 37% increase in 2 x 4's. Appendix H provides additional information on these and similar price increases from selected cities across the country.

All of these price increases have taken place during a period of wage and price controls under the Economic Stabilization Act of 1970. Price increases of lumber and plywood have soared far above those of other commodities. As Appendix I illustrates, in January 1971 the wholesale price index for lumber and plywood was below that for all industrial commodities, including these products. By February 1973, the indexes for lumber and plywood were 55% and 53%, respectively, above that for all industrial commodities.

In addition, the price increase in lumber and plywood is far in excess of that for other materials which go into the structure of a home or apartment. Wholesale indexes for lumber and plywood as compared with those for all construction material, including these items, shown in Appendix J, indicate an extremely disproportionate increase in the prices of lumber and plywood as compared with all construction materials.

Many steps can and must be taken to meet the long range problem of timber supply. But, the tremendously disruptive influence on the price and supply of lumber and plywood of the excess exports and foreign buying activity experienced in recent months poses a problem of such immense proportions that immediate action is imperative. With the need for these materials at home so severe and prices so totally out of hand, it is entirely inappropriate for our nation to continue to permit such a significant portion of its annual



timber and lumber production to be exported to other nations.

It makes no sense whatsoever to place ourselves in the position of being more and more heavily dependent on lumber imports to fulfill our needs. As shown in Appendix K, softwood lumber imports now represent 22% of domestic consumption. Whereas we had been importing 4 to 5 billion board feet of softwood lumber in the 1960's, about 15% of our consumption, we imported 7.2 billion board feet in 1971 and nearly 9 billion in 1972.

The current lumber and plywood situation is a precise example of the type of problem the Export Administration Act of 1969 was designed to avoid. This law declares that:

"It is the policy of the United States to use export controls... to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand..."

The present high rate of export of logs and lumber has, indeed, posed a severe drain on our scarce supply. Because the price of these products is heavily influenced by demand, the price has thus skyrocketed and caused a serious inflation in the price of housing for American families.

Appendix L provides a tabulation of the median price of single-family homes. It shows that, whereas in the first half of 1972,

the median sales price averaged \$26,685, it began to rise considerably in mid-year, reaching \$29,700 in December 1972. Because lumber and plywood constitute such a large component of construction cost and because the prices of these materials have risen so far out of proportion to that of other components, we believe that this considerable rise in the median price of single-family housing can to a great extent be attributed to the increased cost of lumber and plywood.

Because of the severe impact on our industry of the recent substantial increase in softwood log and lumber exports, we met with the Secretary of Commerce on January 24 to point out the need for some action to be taken to curb these exports. This meeting was followed up by a formal request to the Secretary on January 26 to take such action under the Export Administration Act. A further request was made to the President on February 5. Today we have sent to the Secretary of Commerce a lengthy petition once again asking him to implement the Export Administration Act. We have provided you with a copy of our letter to the Secretary transmitting that petition.

In view of our so far unsuccessful, but we believe fully warranted, efforts to achieve relief under the Export Administration Act, the legislation before this Subcommittee, H. R. 5769, amending the Export Administration Act of 1969, can make a significant contribution to our national need to preserve, for domestic use, materials which are in short supply. As currently written, the

Export Administration Act offers little assistance in early identification of critical problem areas and preventing such crises as we are now experiencing with lumber and plywood. Studies by the Secretaries of Agriculture and Commerce, with technical advice provided by representatives of industry, would provide an excellent means for determining, in advance, what our domestic needs will be and thus, what export restraints should be imposed, if any. Along with forecasting demands, we think it would be appropriate for the Secretary of Commerce also to look at the future supply of materials and commodities so that he may be better able to identify those requiring protection.

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Furthermore, eligibility should not be limited to those industries involved with materials or commodities either subject to controls or under consideration for control. This seems to put the cart before the horse. It requires some action or consideration by Commerce before industries have had an opportunity to demonstrate

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As the Export Administration Act now stands, it is unclear what extent of proof and how serious a crisis there must be in order for controls to be put into effect. Technical advisory committees are badly needed to investigate problems and hear complaints and testimony. It seems to us, however, that all of the work that the committee might undertake could be lost or shunted aside unless H. R. 5769 goes one step further.

Following hearings and investigation by a technical advisory committee, we believe the legislation should provide that the committee make a specific recommendation to the Secretary of Commerce as to whether or not exports of an item should be controlled. Furthermore, having made such a formal recommendation, the legislation should require that the Secretary rule on it and accompany his ruling with reasons to substantiate his decision.

The current predicament in which our industry finds itself, with outrageous prices and critical shortages of lumber and plywood, hobbling its ability to meet the nation's housing needs, should be

resolved as quickly as possible. If the bill before the Subcommittee were now law, the extent and effect of lumber and timber exports could have long ago been fully aired and considered by a panel of government and industrial advisors. The recommendation could then have been brought before the Secretary of Commerce for a ruling and an explanation for his actions or failures to act.

With these few changes in the amendments before this Subcommittee, we believe that the Export Administration Act will be a much more effective tool for dealing with problems such as the lumber and plywood crisis we face today. Accordingly, we urge the Subcommittee to act favorably on this bill with the changes we have suggested.

Thank you for this opportunity to appear here today.

## APPENDIX A

NEW PRIVATE AND PUBLIC HOUSING STARTS 1960-1972

(In Thousands of Units)

Period	Single Family	Multi- Family	Total	% Single Family	Seasonally Adjusted Annual Rate	Mobile Home Shipments
1960	1008.7	287.3	1296.0	77.8		103.7
1961	988.9	376.1	1365.0	72.5		90.2
1962	996.0	496.4	1492.4	66.7		118.0
1963	1021.6	620.4	1642.0	62.2		150.8
1964	971.9	589.1	1561.0	62.3		191.3
1965	965.0	544.6	1509.6	63.9		216.5
1966	779.5	416.4	1195.9	65.2		217.3
1967	844.9	477.0	1321.9	63.9		240.4
1968	900.5	746.0	1545.5	58.3		318.0
1969	811.2	688.4	1499.6	54.1		412.7
1970	815.1	653.9	1469.0	55.5		401.2
1971	1152.9	931.6	2084.5	55.3		496.6
<u>1972</u>						
Jan.	76.4	74.5	150.9		2487	33.3
Feb.	76.4	77.2	153.6		2682	39.7
Mar.	111.5	94.3	205.8		2369	48.8
Apr.	120.1	93.1	213.2		2109	53.4
May	135.4	92.5	227.9		2350	51.5
June	131.9	94.3	226.2		2330	54.7
July	117.7	87.3	205.0		2218	48.2
Aug.	131.3	97.4	230.9		2484	51.7
Sept.	119.5	80.9	201.8		2366	48.8
Oct.	117.0	101.2	218.2		2462	54.1
Nov.	97.4	89.7	187.1		2395	50.4
Dec.	73.2	79.4	152.6		2369	37.7
Total	1309.2	1069.2	2378.5	55.1		572.4
<u>1973</u>						
Jan.	76.9	70.3	147.2		2496	40.7
Feb.	73.1	65.6	138.8		2444	NA

Source: U.S. Department of Commerce, Bureau of Census

## APPENDIX B

U.S. EXPORTS OF SOFTWOOD LOGS, 1962-73  
(In Million Board Feet, Log Scale)

Year	Total Exports	Exports to Japan	Japan Exports as a Percent of Total
1962	452.7	326.0	72.0%
1963	879.6	689.0	78.3
1964	1022.6	752.0	73.5
1965	1111.4	800.0	72.0
1966	1317.5	1080.0	82.0
1967	1873.6	1580.0	84.3
1968	2473.2	2112.0	85.4
1969	2316.8	1996.0	86.2
1970	2684.1	2372.0	88.4
1971	2233.4	1844.0	82.6
1972	3048.0	2523.0	82.8
Jan 1972	205.9	143.8	69.8
Jan 1973	260.5	210.5	81.0

Source: U.S. Forest Service, The Demand and Price Situation For Forest Products, 1971-72, Table 13. 1972 Data: U.S. Bureau of Census 1973 Data: U.S. Department of Commerce.

## APPENDIX C

EXPORTS OF SOFTWOOD LUMBER  
(Billions of Board Feet)

<u>Year</u>	<u>Exports</u>
1960	0.7
1961	0.6
1962	0.6
1963	0.7
1964	0.8
1965	0.8
1966	0.9
1967	1.0
1968	1.0
1969	1.0
1970	1.2
1971	0.9
1972	1.2

Source: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.



## APPENDIX D

AVERAGE STUMPAGE PRICES FOR ALL SPECIES OF SAWTIMBER  
 SOLD ON NATIONAL FORESTS IN OREGON AND WASHINGTON,<sup>1</sup> 1960-72  
 (In Dollars Per Thousand Board Feet)

<u>YEAR</u>	<u>PRICE</u>
1960	\$22.10
1961	18.50
1962	16.60
1963	18.50
1964	24.20
1965	27.50
1966	31.50
1967	28.00
1968	42.40
1969	58.80
1970	26.70
1971	30.10
1972 <sup>2</sup>	56.67

<sup>1</sup> Excludes Northeast corner of the state

<sup>2</sup> Price for the third quarter of 1972

SOURCE: U.S. Forest Service, Production, Prices, Employment,  
 And Trade in NW Forest Industries. 3rd Quarter 1972

## APPENDIX E

MONTHLY STUMPAGE PRICES  
Douglas Fir Region  
1972

<u>Month</u>	<u>Volume (million board feet)</u>	<u>Advertised (per thousand board feet)</u>	<u>Bid (per thousand board feet)</u>	<u>Differential Between Advertised and Bid (per thousand board feet)</u>
January	57.3	\$37.42	\$43.99	\$ 6.57
February	116.1	33.90	40.36	6.46
March	331.6	37.32	40.98	3.66
April	146.4	33.80	38.01	4.21
May	328.8	33.99	40.53	6.54
June	956.1	39.94	47.29	7.32
July	85.6	44.68	50.59	5.91
August	197.4	52.10	59.72	7.62
September	193.7	54.71	61.11	6.40
October	186.6	53.12	61.98 *	8.86
November	271.5	44.04	60.24	16.20
December	790.2	50.82	84.25	33.43

\* Excludes sale on Siskiyou National Forest of 5.6 Million board feet of Port Orford Cedar at \$1,000 per thousand board feet.

SOURCE: U.S. Forest Service

## APPENDIX F

PRICES OF FRAMING LUMBER AND PLYWOOD  
1971 - 1973  
(FOB Mill, West Coast)

MONTH	GREEN DOUGLAS FIR 2 x 4's <sup>1</sup>			KILN DRIED HEM-FIR 2 x 4's <sup>2</sup>			1/2" 4/5 PLY EXTERIOR PLYWOOD <sup>3</sup>		
	1971	1972	1973	1971	1972	1973	1971	1972	1973
January	\$78	\$114	\$172	\$82	\$121	\$160	\$81	\$107	\$163
February	89	117	182	95	122	181	91	110	184
March	91	115		98	122		91	111	
April	91	114		97	122		87	111	
May	89	114		96	123		84	118	
June	97	116		109	129		89	136	
July	103	121		118	140		101	156	
August	108	124		119	146		101	156	
September	102	136		113	151		96	156	
October	99	156		106	155		90	156	
November	105	160		108	155		95	156	
December	108	153		110	155		98	156	

<sup>1</sup> Douglas Fir, unseasoned, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>2</sup> Hem-Fir, (inland), Kiln Dried, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>3</sup> Douglas Fir, Plywood, 1/2", standard exterior (4/5 Ply). Price per  
thousand square feet.

SOURCE: Random Lengths, Yearbook 1971  
Weekly Price Guide, various issues

## APPENDIX G

AVERAGE WEEKLY PRICES  
OF FRAMING LUMBER AND PLYWOOD  
(FOB Mill, West Coast)  
December 1972 - March 1973

<u>Week Ending</u>	<u>Green Douglas Fir 2 x 4's</u> <sup>1</sup>	<u>Kiln Dried Hem-Fir <sup>2</sup> 2 x 4's</u>	<u>1/2" 4/5 Ply Exterior <sup>3</sup> Plywood</u>	<u>1/4" Sanded Interior <sup>4</sup> Plywood</u>
12/1	\$144	\$155	\$156	\$102
12/8	150	155	156	102
12/15	154	155	156	102
12/22	157	155	156	102
12/29	158	155	156	102
<u>1973:</u>				
1/5	\$162	\$155	\$156	\$102
1/12	166	155	156	102
1/19	178	162	170	116
1/26	180	168	170	118
2/2	180	175	180	128
2/9	185	182	190	150
2/16	182	184	182	150
2/23	181	184	182	160
3/2	181	185	175	170
3/9	182	188	175	170
3/16	183	192	182	170

<sup>1</sup> Douglas Fir, unseasoned, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>2</sup> Hem-Fir, (inland), Kiln Dried, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>3</sup> Douglas Fir, Plywood, 1/2", standard exterior (4/5 Ply). Price per  
thousand square feet.

<sup>4</sup> Sanded Plywood, 1/4", AD interior. Price per thousand square feet.

SOURCE: Random Lengths, Yearbook 1971  
Weekly Price Guide, various issues

## APPENDIX H

LUMBER PRICE INCREASES DURING PHASES I, II, and III  
FOR ESSENTIAL HOMEBUILDING MATERIALS

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Little Rock, Arkansas	2x4 Studs Precut	160	193	200	20.6	3.6
		155	200	205	29.0	2.5
	$\frac{1}{2}$ " CD	130	160	160	23.0	0
Redwood City, California	2x4 Studs KD H/F	123	168	195	36.6	16.1
	2x10 DF #2545	168	190	220	13.1	15.8
	$\frac{1}{2}$ " CDX	97	169	200	74.2	18.3
Ventura	2x4 #1&2 DF 545	158	195	217	37.3	11.3
	2x10 " " "	168	210	245	25.0	16.7
	$\frac{1}{2}$ " CDX	109	185	212	69.7	14.6
Englewood, Colorado	2x4 Studs (WW Cut)	160	173	185	8.1	6.9
	2x10 - 8	185	210	223	13.5	6.2
	$\frac{1}{2}$ " CD Plywood	135	169	177	25.2	4.7
Wilmington, Delaware	2x4 Studs	140	205	215	46.4	4.9
	R/L up to 2x8	135	185	205	37.0	10.8
	$\frac{1}{2}$ " CED, Ext.	150	230	215	53.3	6.5-
	2x4 -8	160	205	225	28.1	9.8
Clearwater, Florida	2x4 #2 YLP (Pres. TR.)	177	230	245	29.9	6.5
	2x4 Spruce	163	260	260	59.5	0
	2x4 Hem	155	205	260	32.3	26.8
Lehigh	2x4 Pt	192	245	245	27.6	0
	2x4 Const. Fir	170	210	210	23.5	0
	2x4 Spruce (10-20)	155	240	245	54.8	2.0
Savannah, Georgia	2x4	130	165	180	26.9	9.1
	2x6	125	165	180	32.0	9.1
Glenwood (Chicago) Illinois	2x4 Studs, Pine	148	183	203	23.7	10.9
	2x4 " WF Precut	134	182	201	35.8	10.4
	2x10 KD Spruce	148	187	203	26.4	8.6
	2x10 KD "	110	187	184	70.0	1.6-
	$\frac{1}{2}$ " STD Ext	124	153	195	23.4	29.5
	$\frac{1}{2}$ " CDX SP	99	178	194	79.8	9.0
Fort Wayne, Indiana	2x4 Studs, Hem, Fir	151	185		22.5	----
	$\frac{1}{2}$ " CDX	130	185		42.3	----
Baton Rouge, Louisiana	3/8" 4x8 CD	110	135	140	22.7	3.7
	2x4 Studs, Precut	165	180	180	9.1	0
	Studs #2 Fir Precut	169	214	204	26.6	4.7-
Shreveport	$\frac{1}{2}$ " CD	123	176	168	43.1	4.6-

## APPENDIX H

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Baltimore, Maryland	2x4 Precut Studs	144	140	190	18.1	11.8
		195	215	240	10.3	11.6
		147	196	217	33.3	10.7
	2x4-8 Hem	125	177	210	41.6	18.6
		160	185	225	15.6	21.6
		140	155	225	10.7	45.2
		135	220	228	62.7	3.6
		150	190	215	26.7	13.2
	2x4-8	163	200	206	22.7	3.
	3/8" CD Ext	94	155	195	64.9	25.8
		110	205	230	86.4	12.2
	1/2" CD	150	235	240	56.7	2.1
		132	200	203	51.5	1.5
		125	159	217	27.2	36.5
		135	210	240	55.6	14.3
	1/2" CDX	133	226	112	69.9	?
		155	190	215	22.6	13.2
	1/2" CD Ext	137	240	247	75.2	2.9
		137		219		
Hyannis, Massachusetts	2x4 Hem	140	202	235	443	16.3
	2x6 "	140	193	215	37.7	11.4
	1/2" CDX	145	235	230	62.1	2.1-
Bloomfield Hills, (Detroit) Michigan	2x6 - 14 Fir	211	---	284	----	----
	3/8" Ext	202	---	279	----	----
Kalamazoo	2x4 Const. Spruce	174	225	245	29.3	8.9
	2x6 " "	194	199	236	2.6	18.6
Troy	2x4-8 Std & Btr Fir	174	225	213	29.3	5.3-
	1/2" CD	153	209	204	36.6	2.4-
St. Louis, Missouri	2x4 Studs	154	210	213	36.4	1.4
	2x6 8-10	143	168	175	17.5	4.2
	1/2" CD	132	179	189	35.6	5.6
Las Vegas, Nevada	2x4 Studs	135	175	202	29.6	15.4
		155	215	247	38.7	14.9
	CDX Ext	125	220	215	76.0	2.3-
		150	245	240	63.3	2.0-
Freehold, New Jersey	2x4 Studs Fir	170	230	230	35.3	0
	2x8 - 20	148	205	215	38.5	4.9
	1/2" Ext. Glue	133	230	220	72.9	4.4-

## APPENDIX H

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Cleveland, Ohio	2x4 - 16	165	238	203	44.2	14.7-
	2x4 Studs Hem	190	223	240	17.4	7.6
	½" CD	158	240	210	51.9	12.5-
		155	229	253	47.7	10.5
Eugene, Oregon	2x4 Studs	134	155	189	15.7	21.9
	2x10 Joists	157	183	211	16.6	15.3
	3/8 " Plywood	98	109	169	39.7	55.1
Portland	2x4 Studs	97	140	175	44.3	25.0
	2x10	117	185	230	58.1	24.3
	½" CDX	86	210	250	144.2	19.1
Lancaster, Pennsylvania	2x4-8 Spruce	150	210	230	40.0	9.5
	2x10-12 Fir	185	250	270	35.0	8.0
	½" CD Ext	135	---	205	----	----
Pittsburg	2x4 WF	184	236	236	28.3	0
	2x10 W Spruce	175	242	242	38.3	0
Houston, Texas	2x4 Studs Util	152	167	175	9.9	4.8
	2x10, 12 RL #3 YLP	145	175	160	20.7	8.6-
	#2 YLP Studs	121	150	150	24.0	0
	½" CDX	101	148	170	46.5	14.9
Newport News, Virginia	2x4 Pet Studs	125	195	---	56.	----
	2x6 - 16	120	155	---	29.2	----
South Jordan, Utah	2x4 Studs	155	165	189	6.5	14.6
	2x10 - 20	149	208	229	39.6	10.1
	½" Plywood	127	197	189	55.1	4.1-
Everett, Washington	2x4 Gr. Cedar	135	210	225	55.6	7.1
	2x4 Studs KD Std & BTR	125	150	155	20.0	3.3
Redmond	½" CDX	119	158	158	32.8	0
	Studs KD STD & BTR	135	160	160	18.5	0
	½" CDX	150	220	---	46.7	----

1 - 3rd Quarter

2 - 4th Quarter

3 - 1st Quarter

## APPENDIX I

WHOLESALE PRICE INDEXES  
ALL INDUSTRIAL COMMODITIES VS. WOOD PRODUCTS  
1971 - 1973  
(1967 = 100)

Month	All Industrial Commodities		Douglas Fir Softwood Lumber		Softwood Plywood		Millwork 1/	
	1971	1972	1973	1971	1972	1973	1971	1972
January	112.2	115.9	120.0	108.0	148.2	169.5	114.2	124.9
February	112.5	116.5	121.3	122.0	151.4	188.3	115.2	125.5
March	112.8	116.8		135.6	153.6		116.2	125.8
April	113.3	117.3		135.9	156.3		118.6	126.6
May	113.7	117.6		135.7	159.1		120.3	127.6
June	113.9	117.9		139.0	160.8		122.2	128.4
July	114.5	118.1		147.3	165.4		122.8	129.6
August	115.1	118.5		150.9	166.8		123.8	130.0
September	115.0	118.7		149.6	167.3		123.7	130.2
October	115.0	118.8		142.4	167.9		123.7	130.7
November	114.9	119.1		141.5	168.1		123.7	130.9
December	115.3	119.4		143.5	168.3		124.3	130.7

SOURCE: U. S. Bureau of Labor Statistics, Wholesale Prices and Price Indexes, various issues. Table 6 - Code #08.

1/ Includes such items as kitchen cabinets, doors, window frames and roof trusses.



WHOLESALE PRICE INDEXES  
ALL CONSTRUCTION MATERIALS AND WOOD PRODUCTS  
(1967 = 100)

MONTH	ALL CONSTRUCTION MATERIALS						LUMBER*			MILLWORK*			PLYWOOD*					
	1971			1972			1973			1971			1972			1973		
	1971	1972	1973	1971	1972	1973	1971	1972	1973	1971	1972	1973	1971	1972	1973			
JAN	113.4	123.2	129.4	113.0	146.9	169.0	114.2	124.9	131.4	104.9	120.2	134.1						
FEB	114.9	124.2	NA	120.3	150.4	182.3	115.2	125.5	133.4	112.8	125.1	149.4						
MAR	117.2	124.9		129.0	152.4		116.2	125.8		120.2	128.9							
APR	118.0	125.7		131.5	155.1		118.6	126.6		115.6	128.9							
MAY	118.5	126.2		132.8	157.0		120.3	127.6		111.0	130.3							
JUN	119.0	126.6		134.4	159.0		122.2	128.4		110.2	131.7							
JUL	120.9	127.2		142.5	161.6		122.8	129.6		111.7	132.9							
AUG	122.9	127.8		146.7	164.1		123.8	130.0		120.5	135.9							
SEP	123.0	128.0		146.8	165.1		123.7	130.2		119.1	134.6							
OCT	122.2	128.3		142.7	166.1		123.7	130.7		116.2	134.6							
NOV	122.0	128.4		141.9	166.8		123.7	130.9		115.9	133.3							
DEC	122.4	128.5		143.8	167.9		124.3	130.7		117.8	132.2							

\*Includes softwood and hardwood

SOURCE: U.S. Department of Commerce, Construction Review, Table E-2  
U.S. Department of Labor, Monthly Labor Review, Table 27

## APPENDIX K

IMPORTS OF SOFTWOOD LUMBER  
(Billions of Board Feet)

<u>Year</u>	<u>Imports</u>	<u>Apparent Consumption <sup>1/</sup></u>	<u>Percent of Consumption Supplied by Imports</u>
1960	3.6	29.6	12%
1961	4.0	29.5	14%
1962	4.6	30.8	15%
1963	5.0	31.8	16%
1964	4.9	33.4	15%
1965	4.9	33.4	15%
1966	4.8	32.8	15%
1967	4.8	31.1	15%
1968	5.8	34.0	17%
1969	5.9	33.2	18%
1970	5.8	31.9	18%
1971	7.2	37.2	19%
1972	8.9	40.9	22%

<sup>1/</sup> Derived by adding domestic production and net imports.

SOURCE: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.

## APPENDIX L

New One-Family Homes Sold, by Sales Price-  
Not Seasonally Adjusted

<u>Period</u>	<u>Median Sales</u> <u>Price</u> <u>(dollars)</u>
1963	18,000
1964	18,900
1965	20,000
1966	21,400
1967	22,700
1968	24,700
1969	25,600
1970	23,400
<u>1971</u>	
January	23,900
February	24,500
March	24,300
April	25,800
May	25,500
June	26,100
July	25,200
August	25,300
September	25,400
October	25,600
November	25,700
December	25,300
<u>1972</u>	
January	24,700
February	26,500
March	27,400
April	26,700
May	27,000
June	26,800
July	27,700
August	28,100
September	28,000
October	28,900
November	28,900
December	29,700

Note: September through December figures preliminary

Source: United States Census Bureau Construction report C25-72-11 Table 5



# **NATIONAL ASSOCIATION OF HOME BUILDERS**

GEORGE C. MARTIN  
PRESIDENT

1625 L STREET, N.W., WASHINGTON, D. C. 20036

TELEX 89-2640

TELEPHONE (202) 737 7435

March 21, 1973

The Honorable Frederick P. Dent  
Secretary  
Department of Commerce  
Washington, D.C.

Dear Mr. Secretary:

In my letter of January 26, 1973, I urged that you utilize the powers granted to you by the President under Executive Order 11533 to impose controls on the exports of soft wood logs and lumber pursuant to the Export Administration Act of 1969. As I stated to you at that time and in my meeting with you two days before, the ever rising exports of these essential materials have been causing severe shortages and escalating prices to the detriment of our domestic needs and economy. If anything the situation since that time has become more acute.

We still believe that it is essential that you use your powers under the Export Administration Act to return some stability to the domestic supply and price situation for soft wood logs and other wood products. We are now entering the Spring building season when the demand for wood products to sustain the normal sharp spurt in home starts begins. If nothing is done to curtail the extraordinary foreign depletion of our forest and wood resources, the housing needs of the American people will be much more difficult to meet and the nation as a whole will suffer.

To further back up our earlier request to you, I am enclosing a detailed paper dealing with present situation in soft wood logs, lumber and plywood prices and supply. This paper shows how serious the situation is and demonstrates how important it is that you act immediately in accordance with the Export Administration Act to alleviate the situation.

If we can supply you with any further information in this matter, please inform us.

Sincerely,

George Martin

REQUEST BY THE NATIONAL ASSOCIATION OF HOME BUILDERSFOR CURTAILMENT OF EXPORTS OF SOFTWOOD  
LOGS, LUMBER AND PLYWOOD

The Export Administration Act of 1969, 83 Stat. 841 (as amended by the Equal Export Opportunity Act, 86 Stat. 644) declares that: "It is the policy of the United States to use export controls...to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand..." We believe that the current high level of softwood log and lumber exports is contributing to a crisis of major proportions in the cost and supply of lumber and other wood products for domestic use.

The National Association of Home Builders is the trade association representing the home building industry in the United States. It has a membership of over 67,000, affiliated in 546 associations throughout the 50 states, Puerto Rico and the Virgin Islands. Because housing producers use such a large share of lumber, plywood and other wood products, our industry has been heavily hit by the recent severe shortages in the supply of lumber and plywood and the rapidly rising prices of these items. Our industry is deeply concerned over the inflationary impact these rising lumber and plywood prices are having on the cost of providing shelter, and we believe that every reasonable step must be taken to preserve this important natural resource in order that these materials may be obtained at reasonable prices to meet the housing needs of the American people.

Accordingly, the National Association of Home Builders requests that the Secretary of Commerce, acting under the authority delegated to him by Executive Order 11533, impose temporary limits on the exportation of all softwood logs cut from public and private lands and also on the exportation of all softwood lumber and plywood for the following reasons:

I. The nation faces a severe shortage of lumber and plywood to meet domestic demand. Our country is currently experiencing a high rate of construction activity, especially residential construction. New housing starts have been reaching record levels in recent years. Exhibit I-A-1 shows that about 2.1 million housing units were begun in 1971 and about 2.4 million in 1972. In 1973, almost all estimates, including those of the Department of Commerce, are that housing starts will again exceed 2 million units. Even at these high rates of residential construction, projections comparing housing starts with housing demand indicate that an accumulated deficit in housing supply is expected to continue at least through 1979 (see Exhibit I-A-2).

As shown by Exhibit I-B, a substantial amount, 43% of the softwood lumber, and 49% of the softwood plywood, consumed in the United States is used in residential construction. The extremely high need for housing that exists today is placing a heavy demand on the supply of these materials. Furthermore, as projections of housing needs, housing starts and accumulated deficits all indicate, the domestic supply of these materials will be subject to heavy demands for many years to come, as efforts to meet the nation's housing goals continue.

Unlike many other products where the cost of manufacture is the principal determinant of price, the price of lumber and plywood is heavily affected by supply and demand. Thus, the shortage in the supply of logs, lumber and plywood is vividly reflected in the skyrocketing prices of these items over the past two years.

#### Mill Prices

One excellent indicator of heavy demand for lumber and plywood is the spiralling mill price of framing lumber and plywood at West Coast mills. Exhibit I-C shows a 104% increase in Green Douglas Fir 2 x 4's in the two years between February 1971 and February 1973; a 90.2% increase in kiln dried Hemlock and Fir 2 x 4's during this period; and a 102% increase in 1/2" exterior plywood. This rise has become even more severe as inventories of these materials virtually disappear and we enter a third year of high demand. Exhibit I-D lists average weekly mill prices in January, February and early March of this year. In these eleven weeks alone, kiln dried Hemlock and Fir 2 x 4 prices have increased 24%, 1/2" plywood, 17% and 1/4" sanded plywood 66%.

#### Retail Prices

Similar, if not steeper, increases have occurred at the retail level where most home builders acquire their lumber and plywood. Our Association members from all over the United States are reporting price increases of tremendous proportions on essential wood materials for housing construction. In an effort to identify the extent of the problem, our Association surveyed its membership to identify the extent of these increases in the past two years. Exhibit I-E provides selected data from this survey and details substantial price increases throughout the United States, including one report from Portland, Oregon, that 1/2" plywood increased in price by 190.7% between mid-August 1971 and mid-January 1973.

### Stumpage Prices

According to 1970 figures published by the National Forest Products Association, about 31% of the total volume of softwood timber harvested is cut from land owned by the United States Government. It is sold to buyers by auction. Heavy demand for lumber and plywood and shortages of supply affect the prices bid and paid for Federal timber. These stumpage prices provide an excellent barometer of rapidly rising prices for all timber cut from both public and private lands. As with wholesale and retail prices of lumber and plywood, there have been marked jumps in stumpage prices paid for timber on Federal forest lands.

Not only do these soaring prices reflect a severe shortage of supply for all domestic uses from both public and private lands, but rapidly rising timber, finished lumber and plywood prices have the psychological effect of encouraging keen competition and abnormally high bids at Federal auctions and, as well, high offers for nonfederally owned timber. Additionally, with respect to privately owned timber, accelerating price increases encourage the withholding of timber from sale in anticipation of even higher prices in times to come.

According to the latest figures available (through the third quarter of 1972), stumpage prices, as shown in Exhibit I-F-1, jumped by 87% between 1971 and 1972. Monthly stumpage prices for 1972 in the Douglas Fir Region of our Federal forests, shown in Exhibit I-F-2, provide a better view of the increasing competition for a limited supply of logs which has, in recent months, driven stumpage prices to an all-time high. In one month, between November and December of 1972, the price jumped by 40%. Whereas the top bid had been \$40 to \$50 per thousand board feet in the first three quarters of 1972, it began to rise in the fourth quarter, reaching a level of \$84.25 in December. Competition for these logs was so keen that in November, buyers were willing to pay \$16.20 above the advertised price, and in December they paid \$33.43 above this price. In earlier months, the range was only \$4 to \$9 above the advertised price. It was late in 1972 that purchasing activity for export purposes began to accelerate, driving the price of timber from public and private sources skyward.

### Supply Projections

Work by the Department of Agriculture in preparing its report on the "Outlook for Timber in the United States, a Report of the Findings of the 1970 Timber Review" (Review Draft, issued December 1972), further verifies the proportions of the supply shortage, and shows that our nation

can look forward only to further problems in meeting domestic demand. Highlights of the Report are summarized in Exhibit I-G. The Report characterizes the softwood sawtimber supply problem "as the most serious and immediate." Its projections of future supply indicate substantial shortfalls in timber supplies in the forthcoming years, and increasingly heavy reliance on imports of lumber.

Adding to the shortness of supply resulting from present heavy demand and the prospects for even greater demands in the years to come is the fact that, because of various pressures for other uses of forest lands, the future timber growing base in this country has begun to dwindle. The Report projects a continuation of this trend, and shows that our nation is increasingly becoming unable to supply timber to fulfill its own needs.

### Imports

Because of the severe shortage of supply of lumber and plywood from domestic sources, our imports of these materials have shown a marked increase. Exhibit I-H illustrates the rise in imports of softwood lumber in recent years and the increasing reliance our nation is placing on lumber imports. Whereas we had been importing 4 to 5 billion board feet of softwood lumber in the 1960's which represented about 15% of our consumption, we imported 7.2 billion in 1971 and nearly 9 billion in 1972. This 9 billion board feet represents about 22% of United States lumber consumption.

II. Current exports of softwood logs and lumber are abnormally high and are causing an excessive drain on the nation's supply of these materials. Despite increasingly heavy demands for lumber and plywood at home to supply the high rate of construction activity, exports of softwood lumber and logs have not decreased to compensate. In fact, they are increasing substantially and have heightened the critical problem posed by a lumber and plywood shortage. Softwood log exports, for instance, averaged 2.42 billion board feet in 1968 through 1971. They increased by 26%, to 3.05 billion board feet in 1972, a year of record housing production (see Exhibit II-A). Exports have continued to rise, as exemplified by the most recently available figures, which indicate that January, 1973, exports were 26% above January, 1972, exports. Prior to 1968 exports were considerably lower. They were only 453 million board feet ten years ago in 1962.

Our estimate of total lumber consumption in the United States for 1972, based on figures supplied by the United States Forest Service, is



40.9 billion board feet. The logs sent abroad could have produced about 3.8 billion board feet of lumber. Thus, had these logs not been exported, our country could have increased its domestically-produced supply of lumber by about 11.4%.

Also with softwood lumber, there have been substantial rises in exports, despite heavy demand for lumber in the United States and with this heavy demand, accelerating prices. Average annual exports of softwood lumber were 1.0 billion board feet between 1968 and 1971, but they jumped to 1.2 billion board feet in 1972. This was an increase of 20% above the 1968 to 1971 average (see Exhibit II-B).

### Recent Activity

Of particular significance is the stepped-up purchasing activity of Japanese log buyers in late 1972 and early 1973. Spurred by a building boom and lumber shortage in Japan, Japanese buyers are frantically vying for American logs. In so doing, they are paying exorbitant prices, making competition for logs for domestic use even more keen, and impairing the wood products industry's present and future ability to supply lumber, plywood, and other wood products for domestic housing needs at reasonable prices. In 1972 exports to Japan represented 83% of all log exports, with the remainder spread thinly throughout the world (see Exhibit II-C-1).

Exhibit II-C-2, showing monthly exports to Japan, indicates that January, 1973 exports were nearly 67 million board feet, or 46% above those for January, 1972. Accelerated foreign buying, particularly by the Japanese, is so recent that it is not fully reflected in export figures. Furthermore, the volume cannot be precisely calculated because, in many cases, it will be some time before many of these purchases clear United States customs houses and are counted.

However, an examination of what is happening at auctions for timber to be cut off of Federal lands sheds some light on the extent and serious impact on prices of foreign buying pressures. Total timber sales to foreign purchasers from Federal lands is restricted by law, however, all sales are open to purchasers buying for export purposes. Thus, reports of bidding activity and the ever increasing top bids for Federal timber provides a valid indication of the impact on price and supply of abnormally high foreign demand both for Federally owned timber and all other timber.

In the auctions the bidding starts at a minimum, or appraised, price and rises according to the individual needs and appraisals of prospective buyers. Although each sale involves separate circumstances, assuming

that the appraised price reflects the value on the stump of the end products which can be manufactured from the logs, the ratio of the winning bid to the appraised price provides an excellent index of keen competition and heavy demand. As Exhibit II-D illustrates, and Random Lengths of February 16, 1973 explains, in November and December of 1971 more than half, or 61%, of the timber actually sold was bid at no more than 10% over this appraisal. Only 15% of the volume was bid to more than 51% of the appraisal. During these two months of last year, however, this pattern was almost reversed. Only 20% of the 1972 volume was bid at less than 10% over the appraisal, while 48% was sold at an increase of more than 50% over the appraisal price. Because of the time lag between the actual purchase of timber and its manufacture into products for construction, we probably have not yet begun to feel the price impact of this excessive foreign buying activity.

As previously noted, total annual exports of timber cut from Federal lands is restricted to 350 million board feet. This is only about 11% of total United States exports of logs and only roughly 8% of our total annual consumption. Heavy competition for Federal timber is thus only a small part of the entire problem of the adverse impact of high exports on the supply and price of this vital raw material.

Fierce foreign competition for domestic timber is also illustrated by a comparison, shown in Exhibit II-E, of stumpage prices paid for timber cut from Washington lands, all of which is eligible for export, and prices paid for Federally owned stumpage, only a part of which is eligible for export. Consistently higher prices paid for Washington stumpage further indicates the price impact of excessive foreign buying activity.

### Federal Timber Supply

The Agriculture Department's "Report of the Findings of the 1970 Timber Review" states that demand for softwood timber is projected to rise above sustainable softwood log harvests by a wide margin under current levels of forest management. Softwoods needed for lumber and plywood for housing, other construction and various other markets is, according to the Report, our most serious timber supply problem.

The shortage of supply is heightened by the fact that the actual harvest from Federal forest lands, representing about one-third of the supply of softwood sawtimber, falls substantially below the allowable cut each year. As Exhibit II-F demonstrates, the allowable cut has remained fairly constant through the years, but the shortfall has recently

been increasing. Several reasons are given for the widening disparity between the allowable cut and actual sales, including resistance by environmentally oriented organizations to the use of our forest lands for lumber production and insufficient funds for forest management. Perhaps these and other impediments to a fuller use of our forests will be reconciled in the future, but as things now stand, our nation faces a dwindling supply base of this raw material and vital natural resource.

III. Curtailment of log, lumber and plywood exports would reduce the inflationary impact on the economy of high lumber and lumber products prices. Spiralling lumber and plywood prices have already been discussed and demonstrated in detail. These increases, which are far above our nation's anti-inflationary goals and guidelines, have taken place during a period in which our economy has been subject to strict wage and price controls under the Economic Stabilization Act of 1970. For many reasons lumber and plywood prices have not responded to Federal guidelines as did the price of many other goods and services. On top of this failure of lumber and plywood prices to adhere to restraints, various changes in regulations issued under Phase III of the President's efforts to control the economy, which began in January, and their interpretation have permitted lumber and plywood prices to undergo even sharper increases.

The inflationary impact on housing prices of these increases has been very severe. Because it constitutes so large a percentage of the cost of building a new home, about 16% of the total cost of the average house, significant increases in lumber and plywood prices have a direct, immediate impact on the cost of housing. The cost components of a typical single family home in 1972 are detailed in Exhibit III-A.

Lumber and plywood price increases have soared far above price increases of other commodities. This is illustrated by Exhibit III-B which compares wholesale price indexes for all industrial commodities versus those for softwood lumber and softwood plywood. In January, 1971 the index for lumber and plywood was below that for all industrial commodities, including these products. By February of 1973, the index for lumber and plywood was considerably above the index for all industrial commodities.

In addition, the price increase in lumber and lumber products is far in excess of that for other materials which go into the structure of a home or apartment. Exhibit III-C vividly illustrates the disproportionate increase of lumber and plywood with that for all construction materials, including lumber and plywood. In January, 1971, the indexes for all construction materials for lumber alone were almost identical. In

January, however, whereas the price over a two-year period for all construction materials has increased about 14%, during this two-year period, lumber prices have increased by 49.5%. Plywood, which was considerably lower on the price index than all construction materials in January, 1971, is now higher having increased by 27%.

As previously shown, we exported 3.05 billion board feet of logs in 1972 and 1.2 billion board feet of lumber. Had these logs not been exported but, instead, made available to fulfill domestic needs, they could have been converted into approximately 3.8 billion board feet of lumber. Thus in 1972, as a result of exports of these items, about 5.0 billion board feet of lumber never reached the domestic market. This represents 14.7% of total domestic production in 1972, estimated at 33.2 billion board feet, and 12% of all lumber consumed in the United States in 1972, which is estimated at 40.9 billion board feet.

IV. Stabilization of lumber prices, holding the line on housing costs, and achieving our housing goals are of primary importance to our nation. As a nation, we are firmly committed to decent, safe and sanitary housing and a suitable living environment for all Americans. The history of Federal housing legislation amply demonstrates the high priority we have placed on meeting that commitment. It also shows a particularly strong concern for and attention to the housing needs of those of low and moderate income through the establishment of various assistance programs to bring housing costs within the reach of more American families.

Our national housing goals relate to both quality and quantity of shelter needed by American families. In 1949 Congress established the policy that there should be a decent home and a suitable living environment for all Americans. This goal was re-emphasized and quantified in 1968 when Congress established a 10-year goal for achieving the policy stated in 1949: 26 million units were to be built or rehabilitated, 6 million of these for low and moderate income families. The average production to date has been far short of the average of 2.6 million units a year needed to meet the 1968 goals.

These goals have been placed in severe jeopardy by substantial increases in housing costs brought about to a significant extent by rising lumber prices. Thus, permitting a limited natural resource, timber, to be siphoned away by exports to meet the housing and other needs of foreign nations operates in direct conflict with the achievement of our own national housing goals. There is no question but that priority in allocating this resource must be given to meeting the housing needs of the American people.

The rise in the median price of single family homes accelerated toward the end of 1972. As shown in Exhibit IV-A, in the first half of 1972 the median sales price ranged from \$24,700 to \$27,000, and it began to increase considerably in mid-year, reaching \$29,500 in December 1972. Because lumber and plywood constitutes such a large component of construction cost and because the prices of these materials have risen so far out of proportion to that of other components, we believe that this considerable rise in the median price of single-family housing can, to a great extent, be attributed to the cost of lumber and plywood.

Early in 1973, we estimated that the construction cost of an average house had increased by at least \$1,200 as a result of lumber and plywood price increases during the preceding six months. Since that time, lumber and plywood prices have continued to increase, and this increased cost has now gone up another \$280 to \$1,480. This represents an over 10% increase in the total construction cost in less than nine months.

Increases of this magnitude can quickly destroy the prospects for home ownership for many American families, particularly those of low or modest income. For each dollar increase in the monthly mortgage payment, the home buyer normally has to earn four times that amount, or \$4 more, to qualify for a loan. The increased purchase price of housing results in the home buyer having to pay additional sums toward principal on a mortgage, interest, increased taxes and increased insurance.

### Conclusion

Eliminating the drain on our nation's supply of timber, lumber and plywood caused by rising exports does not provide the only answer to meeting the nation's demand for wood products at reasonable prices. Much more needs to be done to increase the supply of these products and thus, reduce their price. Many of these steps involve long range activities such as improvement of the yield from our forests, providing access to timber stands and conducting research for technical breakthroughs. These steps take time and should be pursued diligently, but a significant measure to aid in reversing the current serious situation can be taken now and should not be ignored or postponed.

A temporary curtailment of log and lumber exports can produce a substantial improvement in our supply and ward off increasing housing prices. The high rate of exports of timber and lumber has had a tremendously disruptive influence on the price and supply of these materials. The problem has reached such immense proportions that it should not be

permitted to continue in the hope that long-range solutions will ultimately be found. Immediate and decisive action must be taken. Curtailing exports will not only permit substantially greater quantities of lumber to reach domestic purchasers whose needs are now at record high levels, but it will quell the severe price competition brought on by the prospects of selling these materials to foreign purchasers at inflated prices and it will alleviate the tendency to withhold this material from the market in the hope of even further price inflation.

One of the most frequent objections heard to imposing controls on the export of softwood logs and lumber is that our balance of trade would be adversely affected. Although this certainly is a valid consideration in determining whether to take such a drastic action, we believe that if fails for two reasons in this situation. First, and most importantly, the high importance given to housing of our nation's citizens in adequate accommodations cannot be allowed to be subordinated to the mere consideration of balance of trade. The overwhelming impact on the nation's economy and general well being by permitting the present level of softwood logs and lumber exports to continue, far outweighs any consideration of impact on our balance of trade.

Secondly, however, all evidence points to the fact that a complete cessation of export of softwood logs and lumber during 1972 would have resulted in a positive effect on the nation's balance of trade deficit. This conclusion is based on figures supplied us by the Department of Commerce. In 1972 we exported 3.05 billion board feet of softwood logs for which we received approximately \$392 million. We also exported about 1.2 billion board feet of lumber for which we earned approximately \$94 million.

If we had not exported any softwood logs the 3.5 billion board feet exported would have yielded approximately 3.8 billion board feet of lumber. This amount of lumber, added to the 1.2 billion board feet of lumber exported, would have increased the amount of lumber available for domestic purposes by five billion board feet. Since we imported approximately 8.9 billion board feet of lumber our need to import lumber would have declined by approximately the same amount and we would have needed to import only 3.9 billion board feet.

The 8.9 billion board feet of lumber imported in 1972 cost approximately \$1 billion. If this amount had been decreased by approximately 3.9 billion board feet our payment for imports would be reduced accordingly by approximately \$561 million.

Adding to the \$94 billion earned on the export of lumber the approximately \$392 million earned on the export of logs, it is apparent that the United States earned approximately \$486 million during 1972 on all softwood logs and lumber exports. When this is compared with the approximately \$561 million paid for the import of the same amount of lumber that would have been available domestically if we had had no such exports, it is obvious that there would be a positive effect on our balance of trade to the extent of \$75 million.

We have shown that the high rate of exports of softwood logs and lumber has posed a severe drain on our scarce supply of timber required to fulfill the housing needs of this nation and that the resulting shortage of supply has seriously inflated the cost of these materials and thus, the cost of housing for all American families. Furthermore, we have demonstrated that control of such exports would be beneficial to both the nation's housing needs and its balance of trade. Accordingly, the National Association of Home Builders requests that the exportation of all logs, lumber and plywood be curtailed until such time as there is a sufficient supply to meet domestic needs for these materials at reasonable prices.

March 21, 1973

Exhibit I-A-1

NEW PRIVATE AND PUBLIC HOUSING STARTS 1960-1972

(In Thousands of Units)

Period	Single Family	Multi- Family	Total	% Single Family	Seasonally Adjusted Annual Rate	Mobile Home Shipments
1960	1008.7	287.3	1296.0	77.8		103.7
1961	988.9	376.1	1365.0	72.5		90.2
1962	996.0	496.4	1492.4	66.7		118.0
1963	1021.6	620.4	1642.0	62.2		150.8
1964	971.9	589.1	1561.0	62.3		191.3
1965	965.0	544.6	1509.6	63.9		216.5
1966	779.5	416.4	1195.9	65.2		217.3
1967	844.9	477.0	1321.9	63.9		240.4
1968	900.5	746.0	1545.5	58.3		318.0
1969	811.2	688.4	1499.6	54.1		412.7
1970	815.1	653.9	1469.0	55.5		401.2
1971	1152.9	931.6	2084.5	55.3		496.6

1972

Jan.	76.4	74.5	150.9		2487	33.3
Feb.	76.4	77.2	153.6		2682	39.7
Mar.	111.5	94.3	205.8		2369	48.8
Apr.	120.1	93.1	213.2		2109	53.4
May	135.4	92.5	227.9		2350	51.5
June	131.9	94.3	226.2		2330	54.7
July	117.7	87.3	205.0		2218	48.2
Aug.	131.3	97.4	230.9		2484	51.7
Sept.	119.5	80.9	201.8		2366	48.8
Oct.	117.0	101.2	218.2		2462	54.1
Nov.	97.4	89.7	187.1		2395	50.4
Dec.	73.2	79.4	152.6		2369	37.7

Total	1309.2	1069.2	2378.5	55.1		572.4
-------	--------	--------	--------	------	--	-------

1973

Jan.	76.9	70.3	147.2		2496	40.7
Feb.	73.1	65.6	138.8		2444	NA

Source: U.S. Department of Commerce, Bureau of Census



## EXHIBIT I-A-2

ESTIMATE OF HOUSING REQUIREMENTS FOR THE 1970s  
(Thousands of Units)

Year	DEMAND				SUPPLY				SURPLUS OR DEFICIT				
	(1) Net In- crease in Households	(2) Net Remov- als	(3) Net Re- moval of Mobile Homes	(4) Change in Vacancy	(5) Demand for Second Homes	(6) Total Annual Housing Demand	(7) Three Year Moving Average	(8) Housing Starts	(9) Mobile Home Ship- ments	(10) Total New Units	(11) Three Year Moving Average	(12) Annual	(13) Accum- ulation
1959	1,364	490	60	30	35	1,979	1,722	1,554	120	1,674	1,510	-305	-305
1960	1,465	510	63	30	40	1,308	1,722	1,296	104	1,400	1,510	-492	-213
1961	1,188	530	66	51	45	1,880	1,480	1,365	90	1,455	1,488	-425	-638
1962	1,537	550	66	49	50	1,252	1,563	1,432	118	1,610	1,619	-358	-280
1963	1,701	570	67	58	55	2,028	1,739	1,642	150	1,792	1,718	-235	-45
1964	1,255	590	67	56	60	2,028	1,739	1,562	191	1,753	1,757	-275	-320
1965	841	610	70	51	65	1,637	1,745	1,510	217	1,727	1,631	-490	-210
1966	753	630	80	36	70	1,569	1,883	1,196	217	1,413	1,567	-156	-386
1967	1,289	650	85	34	75	2,443	2,033	1,322	240	1,562	1,614	-81	-1,267
1968	1,206	670	92	34	80	2,087	2,136	1,548	318	1,866	1,769	-221	-1,488
1969	1,250	680	105	41	85	2,161	2,136	1,500	380	1,880	1,670	-281	-1,769
1970	1,222	690	120	38	90	2,160	2,110	1,464	400	1,864	2,105	-296	-2,065
1971	1,041	700	130	43	95	2,009	2,235	2,080	490	2,570	2,398	-461	-1,504
1972	1,505	718	142	50	100	2,507	2,298	2,225	545	2,770	2,615	-453	-1,241
1973	1,398	720	155	54	110	2,377	2,451	2,000	535	2,535	2,661	-458	-1,083
1974	1,433	740	165	60	120	2,468	2,465	2,150	525	2,680	2,663	-412	-871
1975	1,430	750	180	62	130	2,551	2,553	2,200	525	2,725	2,727	-174	-697
1976	1,478	770	190	62	140	2,640	2,637	2,250	525	2,775	2,776	-174	-697
1977	1,580	780	200	60	150	2,720	2,684	2,300	525	2,825	2,825	-105	-272
1978	1,480	790	200	61	160	2,691	2,669	2,350	525	2,875	2,873	-184	-457
1979	1,450	810	205	62	170	2,650	2,655	2,400	520	2,920	2,915	-223	-680
1980	1,413	820	210	64	180	2,687	2,655	2,430	520	2,950	2,915	-223	-903

## Sources:

- (1) Derived by using persons per household from the 1976-1980, estimated by NAHB Economics Department, Series D-1, population projections as reported in the Current Population Reports, Series P-25, No. 448, pp. 28-29, Series D. In Housing Estimates based on Demolitions and Other Factors in Housing Reports, 1967, by Richard A. Drickney, Marketing Research Manager, Homobuilding Press, 1967.
- (2) Based upon an unpublished "scrap-out ratio" developed by Mr. Richard A. Drickney, Marketing Research Manager, Homobuilding Press, 1967.
- (3) Estimated by NAHB Economics Department based upon continuation of current vacancy levels throughout the 1970 and 1980 estimated by NAHB Economics Department, Series B-113 (Quarterly).
- (4) Estimated by NAHB Economics Department based upon current estimate of Bureau of Census and Forest Service in "Second Homes in the United States," Current Housing Reports, H-121, No. 16: 1968 to 1980 estimated by NAHB Economics Department.

- (5) Sum of Columns (1) through (5).
- (6) Three year moving average of column (6) centered on 1970.
- (7) 1959-1969, Bureau of Census, C-20, Housing Starts Report; 1970-1980, NAHB Economics Department Estimate.
- (8) 1959-1969, Mobile Home Manufacturers Association; 1970-1980, NAHB Economics Department estimate.
- (9) 1959-1969, Mobile Home Manufacturers Association; 1970-1980, NAHB Economics Department estimate.
- (10) Three year moving average of column (10) centered on the second year.
- (11) Column (10) minus column (6).
- (12) Accumulation of the differences shown in column (12).

Prepared by: NAHB Economics Department,  
Summer of 1971

## EXHIBIT 1-B

Estimated Lumber & Plywood Uses in an  
Average Year

	<u>Residential</u>	<u>Other Const.</u>	<u>Manufacturing &amp; Others</u>
Lumber	43%	43%	14%
Plywood	49%	12%	39%

Source: National Forest Products Association,  
Washington, D. C.

## EXHIBIT 1-C

PRICES OF FRAMING LUMBER AND PLYWOOD  
1971 - 1973  
(FOB Mill, West Coast)

MONTH	GREEN DOUGLAS FIR 2 x 4's <sup>1</sup>			KILN DRIED HEM-FIR 2 x 4's <sup>2</sup>			1/2" 4/5 PLY EXTERIOR PLYWOOD <sup>3</sup>		
	1971	1972	1973	1971	1972	1973	1971	1972	1973
January	\$78	\$114	\$172	\$82	\$121	\$160	\$81	\$107	\$163
February	89	117	182	95	122	181	91	110	184
March	91	115		98	122		91	111	
April	91	114		97	122		87	111	
May	89	114		96	123		84	118	
June	97	116		109	129		89	136	
July	103	121		118	140		101	156	
August	108	124		119	146		101	156	
September	102	136		113	151		96	156	
October	99	156		106	155		90	156	
November	105	160		108	155		95	156	
December	108	153		110	155		98	156	

<sup>1</sup> Douglas Fir, unseasoned, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>2</sup> Hem-Fir, (inland), Kiln Dried, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>3</sup> Douglas Fir, Plywood, 1/2", standard exterior (4/5 Ply). Price per  
thousand square feet.

SOURCE: Random Lengths, Yearbook 1971  
Weekly Price Guide, various issues

## EXHIBIT I-D

AVERAGE WEEKLY PRICES  
OF FRAMING LUMBER AND PLYWOOD  
(FOB Mill, West Coast)  
December 1972 - March 1973

<u>Week Ending</u>	<u>Green Douglas Fir 2 x 4's</u> <sup>1</sup>	<u>Kiln Dried Hem-Fir 2 x 4's</u> <sup>2</sup>	<u>1/2" 4/5 Ply Exterior Plywood</u> <sup>3</sup>	<u>1/4" Sanded Interior Plywood</u> <sup>4</sup>
12/1	\$144	\$155	\$156	\$102
12/8	150	155	156	102
12/15	154	155	156	102
12/22	157	155	156	102
12/29	158	155	156	102
<u>1973:</u>				
1/5	\$162	\$155	\$156	\$102
1/12	166	155	156	102
1/19	178	162	170	116
1/26	180	168	170	118
2/2	180	175	180	128
2/9	185	182	190	150
2/16	182	184	182	150
2/23	181	184	182	160
3/2	181	185	175	170
3/9	182	188	175	170
3/16	183	192	182	170

<sup>1</sup> Douglas Fir, unseasoned, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>2</sup> Hem-Fir, (inland), Kiln Dried, 2 x 4, std and btr, random 8/20' lengths.  
Price per thousand board feet.

<sup>3</sup> Douglas Fir, Plywood, 1/2", standard exterior (4/5 Ply). Price per  
thousand square feet.

<sup>4</sup> Sanded Plywood, 1/4", AD interior. Price per thousand square feet.

SOURCE: Random Lengths, Yearbook 1971  
Weekly Price Guide, various issues

LUMBER PRICE INCREASES DURING PHASES I, II, and III  
FOR ESSENTIAL HOMEBUILDING MATERIALS

## EXHIBIT I-E

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Little Rock, Arkansas	2x4 Studs Precut	160	193	200	20.6	3.6
		155	200	205	29.0	2.5
	½" CD	130	160	160	23.0	0
Redwood City, California	2x4 Studs KD H/F	123	168	195	36.6	16.1
	2x10 DF #2545	168	190	220	13.1	15.8
	½" CDX	97	169	200	74.2	18.3
Ventura	2x4 #1&2 DF 545	158	195	217	37.3	11.3
	2x10 " " "	168	210	245	25.0	16.7
	½" CDX	109	185	212	69.7	14.6
Englewood, Colorado	2x4 Studs (WW Cut)	160	173	185	8.1	6.9
	2x10 - 8	185	210	223	13.5	6.2
	½" CD Plywood	135	169	177	25.2	4.7
Wilmington, Delaware	2x4 Studs	140	205	215	46.4	4.9
	R/L up to 2x8	135	185	205	37.0	10.8
	½" CED, Ext.	150	230	215	53.3	6.5-
	2x4 -8	160	205	225	28.1	9.8
Clearwater, Florida	2x4 #2 YLP (Pres. TR.)	177	230	245	29.9	6.5
	2x4 Spruce	163	260	260	59.5	0
	2x4 Hem	155	205	260	32.3	26.8
Lehigh	2x4 Pt	192	245	245	27.6	0
	2x4 Const. Fir	170	210	210	23.5	0
	2x4 Spruce (10-20)	155	240	245	54.8	2.0
Savannah, Georgia	2x4	130	165	180	26.9	9.1
	2x6	125	165	180	32.0	9.1
Glenwood (Chicago) Illinois	2x4 Studs, Pine	148	183	203	23.7	10.9
	2x4 " WF Precut	134	182	201	35.8	10.4
	2x10 KD Spruce	148	187	203	26.4	8.6
	2x10 KD "	110	187	184	70.0	1.6-
	½" STD Ext	124	153	195	23.4	29.5
	½" CDX SP	99	178	194	79.8	9.0
Fort Wayne, Indiana	2x4 Studs, Hem, Fir	151	185		22.5	----
	½" CDX	130	185		42.3	----
Baton Rouge, Louisiana Shreveport	3/8" 4x8 CD	110	135	140	22.7	3.7
	2x4 Studs, Precut	165	180	180	9.1	0
	Studs #2 Fir Precut	169	214	204	26.6	4.7-
	½" CD	123	176	168	43.1	4.6-

## EXHIBIT I-E

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Baltimore, Maryland	2x4 Precut Studs	144	140	190	18.1	11.8
		195	215	240	10.3	11.6
		147	196	217	33.3	10.7
	2x4-8 Hem	125	177	210	41.6	18.6
		160	185	225	15.6	21.6
		140	155	225	10.7	45.2
		135	220	228	62.7	3.6
		150	190	215	26.7	13.2
	2x4-8	163	200	206	22.7	3.
	3/8" CD Ext	94	155	195	64.9	25.8
		110	205	230	86.4	12.2
	1/2" CD	150	235	240	56.7	2.1
		132	200	203	51.5	1.5
		125	159	217	27.2	36.5
		135	210	240	55.6	14.3
	1/2" CDX	133	226	112	69.9	?
		155	190	215	22.6	13.2
	1/2" CD Ext	137	240	247	75.2	2.9
		137		219		
Hyannis, Massachusetts	2x4 Hem	140	202	235	443	16.3
	2x6 "	140	193	215	37.7	11.4
	1/2" CDX	145	235	230	62.1	2.1-
Bloomfield Hills, (Detroit) Michigan	2x6 - 14 Fir	211	---	284	----	----
	3/8" Ext	202	---	279	----	----
Kalamazoo	2x4 Const. Spruce	174	225	245	29.3	8.9
	2x6 " "	194	199	236	2.6	18.6
Troy	2x4-8 Std & Btr Fir	174	225	213	29.3	5.3-
	1/2" CD	153	209	204	36.6	2.4-
St. Louis, Missouri	2x4 Studs	154	210	213	36.4	1.4
	2x6 8-10	143	168	175	17.5	4.2
	1/2" CD	132	179	189	35.6	5.6
Las Vegas, Nevada	2x4 Studs	135	175	202	29.6	15.4
		155	215	247	38.7	14.9
	CDX Ext	125	220	215	76.0	2.3-
		150	245	240	63.3	2.0-
Freehold, New Jersey	2x4 Studs Fir	170	230	230	35.3	0
	2x8 - 20	148	205	215	38.5	4.9
	1/2" Ext. Glue	133	230	220	72.9	4.4-

## EXHIBIT I-E

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Cleveland, Ohio	2x4 - 16	165	238	203	44.2	14.7-
	2x4 Studs Hem	190	223	240	17.4	7.6
	$\frac{1}{2}$ " CD	158	240	210	51.9	12.5-
		155	229	253	47.7	10.5
Eugene, Oregon	2x4 Studs	134	155	189	15.7	21.9
	2x10 Joists	157	183	211	16.6	15.3
	3/8 " Plywood	98	109	169	39.7	55.1
Portland	2x4 Studs	97	140	175	44.3	25.0
	2x10	117	185	230	58.1	24.3
	$\frac{1}{2}$ " CDX	86	210	250	144.2	19.1
Lancaster, Pennsylvania	2x4-8 Spruce	150	210	230	40.0	9.5
	2x10-12 Fir	185	250	270	35.0	8.0
	$\frac{1}{2}$ " CD Ext	135	---	205	----	----
Pittsburg	2x4 WF	184	236	236	28.3	0
	2x10 W Spruce	175	242	242	38.3	0
Houston, Texas	2x4 Studs Util	152	167	175	9.9	4.8
	2x10, 12 RL #3 YLP	145	175	160	20.7	8.6-
	#2 YLP Studs	121	150	150	24.0	0
	$\frac{1}{2}$ " CDX	101	148	170	46.5	14.9
Newport News, Virginia	2x4 Pet Studs	125	195	---	56.	----
	2x6 - 16	120	155	---	29.2	----
South Jordan, Utah	2x4 Studs	155	165	189	6.5	14.6
	2x10 - 20	149	208	229	39.6	10.1
	$\frac{1}{2}$ " Plywood	127	197	189	55.1	4.1-
Everett, Washington	2x4 Gr. Cedar	135	210	225	55.6	7.1
	2x4 Studs KD Std & BTR	125	150	155	20.0	3.3
	$\frac{1}{2}$ " CDX	119	158	158	32.8	0
Redmond	Studs KD STD & BTR	135	160	160	18.5	0
	$\frac{1}{2}$ " CDX	150	220	---	46.7	----

1 - 3rd Quarter

2 - 4th Quarter

3 - 1st Quarter

AVERAGE STUMPAGE PRICES FOR ALL SPECIES OF SAWTIMBER  
SOLD ON NATIONAL FORESTS IN OREGON AND WASHINGTON,<sup>1</sup> 1960-72  
(In Dollars Per Thousand Board Feet)

<u>YEAR</u>	<u>PRICE</u>
1960	\$22.10
1961	18.50
1962	16.60
1963	18.50
1964	24.20
1965	27.50
1966	31.50
1967	28.00
1968	42.40
1969	58.80
1970	26.70
1971	30.10
1972 <sup>2</sup>	56.67

<sup>1</sup> Excludes Northeast corner of the state

<sup>2</sup> Price for the third quarter of 1972

SOURCE: U.S. Forest Service, Production, Prices, Employment,  
And Trade in NW Forest Industries. 3rd Quarter 1972



MONTHLY STUMPAGE PRICES  
Douglas Fir Region  
1972

<u>Month</u>	<u>Volume (million board feet)</u>	<u>Advertised (per thousand board feet)</u>	<u>Bid (per thousand board feet)</u>	<u>Differential Between Advertised and Bid (per thousand board feet)</u>
January	57.3	\$37.42	\$43.99	\$ 6.57
February	116.1	33.90	40.36	6.46
March	331.6	37.32	40.98	3.66
April	146.4	33.80	38.01	4.21
May	328.8	33.99	40.53	6.54
June	956.1	39.94	47.29	7.32
July	85.6	44.68	50.59	5.91
August	197.4	52.10	59.72	7.62
September	193.7	54.71	61.11	6.40
October	186.6	53.12	61.98 *	8.86
November	271.5	44.04	60.24	16.20
December	790.2	50.82	84.25	33.43

\* Excludes sale on Siskiyou National Forest of 5.6 Million board feet of Port Orford Cedar at \$1,000 per thousand board feet.

SOURCE: U.S. Forest Service

MAJOR TIMBER SUPPLY-DEMAND FINDINGS

1. Demands for wood products have increased 70 percent in the last three decades and similar substantial increases are expected through the end of this century.

2. During the past three decades, lumber consumption rose 49 percent. Use of pulp products climbed 235 percent. Consumption of veneer and plywood increased 475 percent.

3. Net growth of softwood increased about one-third between 1950 and 1970. This included about 40 billion board feet of softwood sawtimber suitable for lumber and pulpwood. Net growth of hardwoods increased nearly as much, with growth of the hardwood sawtimber portion of the total amounting to 20 billion board feet.

4. With current levels of forest management for timber production, only modest increases in timber harvests will be available in the next few decades. Inadequate supplies of timber to meet rising demands will lead to consequent increases in prices of timber and timber products.

5. Increasing pressures for transferring land from commercial forests to recreation and other non-timber uses, as well as increased environmental considerations, have a direct effect on timber supplies.

6. Rising imports of wood products will provide some increases in supply but may be largely offset by increases in exports.

7. Greater use of non-wood materials as substitutes can be a partial solution to future wood supply problems, but could have undesirable environmental and economic effects.

8. The two most promising methods for increasing supplies and holding down prices are (1) intensifying growth rates of timber in domestic forests, especially on the 296 million acres of non-industrial private lands which make up three-fifths of the commercial forest land base, and (2) improving product yields from available raw materials.

9. Increased research and application efforts could increase supplies of timber and wood products substantially through solution of protection, harvesting, processing, and utilization problems.

10. Due to the long term nature of forestry, decisions must be considered promptly as to how we are to meet future demands for timber products while simultaneously providing for non-timber uses of forests and environmental protection.

SOURCE: "Outlook for Timber in the U. S., a Report of the Findings of the 1970 Timber Review"  
(Review Draft, issued December 1972)

## EXHIBIT I-H

IMPORTS OF SOFTWOOD LUMBER  
(Billions of Board Feet)

<u>Year</u>	<u>Imports</u>	<u>Apparent Consumption <sup>1/</sup></u>	<u>Percent of Consumption Supplied by Imports</u>
1960	3.6	29.6	12%
1961	4.0	29.5	14%
1962	4.6	30.8	15%
1963	5.0	31.8	16%
1964	4.9	33.4	15%
1965	4.9	33.4	15%
1966	4.8	32.8	15%
1967	4.8	31.1	15%
1968	5.8	34.0	17%
1969	5.9	33.2	18%
1970	5.8	31.9	18%
1971	7.2	37.2	19%
1972	8.9	40.9	22%

<sup>1/</sup> Derived by adding domestic production and net imports.

SOURCE: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.

## EXHIBIT II-A

U.S. EXPORTS OF SOFTWOOD LOGS, 1962-73  
(In Million Board Feet, Log Scale)

Year	Total Exports	Exports to Japan	Japan Exports as a Percent of Total
1962	452.7	326.0	72.0%
1963	879.6	689.0	78.3
1964	1022.6	752.0	73.5
1965	1111.4	800.0	72.0
1966	1317.5	1080.0	82.0
1967	1873.6	1580.0	84.3
1968	2473.2	2112.0	85.4
1969	2316.8	1996.0	86.2
1970	2684.1	2372.0	88.4
1971	2233.4	1844.0	82.6
1972	3048.0	2523.0	82.8
Jan 1972	205.9	143.8	69.8
Jan 1973	260.5	210.5	81.0

Source: U.S. Forest Service, The Demand and Price Situation For Forest Products, 1971-72, Table 13. 1972 Data: U.S. Bureau of Census  
1973 Data: U.S. Department of Commerce.

## EXHIBIT II-B

EXPORTS OF SOFTWOOD LUMBER  
(Billions of Board Feet)

<u>Year</u>	<u>Exports</u>
1960	0.7
1961	0.6
1962	0.6
1963	0.7
1964	0.8
1965	0.8
1966	0.9
1967	1.0
1968	1.0
1969	1.0
1970	1.2
1971	0.9
1972	1.2

Source: U.S. Department of Agriculture Forest Service, The Demand and Price Situation for Forest Products, 1971-72.

## EXHIBIT II-C-1

Softwood Logs Exports 1972

<u>Country</u>	<u>Quantity</u> <u>(thousand BF)</u>
Canada	461,700
Mexico	453
Bahamas	156
LW WW I.	13
N. Antil	48
Peru	2,264
Brazil	96
Sweden	11
Nethl.	56
W. Germ	1,579
Switz	67
Portgl	15
Greece	41
S. Arab	13
Kor Rep	53,754
Japan	2,522,669
T. Pac Is.	6
Miquel	1,378
Bermuda	7
Jamaica	7
Trinidad	11
FW Ind	25
Chile	9
Argent.	38
Finland	10
France	616
Austria	34
Spain	1,596
Italy	1,216
Iran	3
Bahrain	20
Hg Kong	20
Austral	170
Rep Saf	14
<u>Total</u>	<u>3,048,120</u>

Source: United States Commerce Department

## EXHIBIT II-C-2

## SOFTWOOD LOGS EXPORTED TO JAPAN, 1972

<u>MONTH</u>	<u>QUANTITY</u> <u>(in thousand board feet )</u>
January	143,784
February	80,074
March	307,701
April	246,496
May	239,798
June	163,868
July	184,116
August	297,652
September	200,135
October	261,627
November	216,958
December	180,460
Total 1972	2,522,669
January, 1973	210,527

SOURCE: U. S. Department of Commerce

## EXHIBIT II-D

Comparison of Timber Sale Bid Ratios  
November and December

<u>Year</u>	<u>Approx. Volume Sold (million board feet)</u>	<u>Percent of Volume Bid 0-10% over Appraisal</u>	<u>Percent of Volume Bid 11-50% over Appraisal</u>	<u>Percent of Volume Bid 51-100% over Appraisal</u>	<u>Percent of Volume Bid more than 100% over Appraisal</u>
<u>Four Washington Forests</u>					
1971	215	61%	24%	12%	3%
1972	342	20	31	17	31
<u>Willamette National Forest</u>					
1971	330	89%	10%		*
1972	290	33	21	33	12

\*There was a small cedar sale at 6 x appraisal price.

Source: Random Lengths, February 16, 1973



## EXHIBIT II-E

Comparison of Stumpage Prices in Washington  
and Oregon

Year	Private	National Forest		BLM		State	
	Harvest	Harvest	Stumpage	Harvest	Stumpage	Harvest	Stumpage
STATE OF OREGON							
1967	3, 833	3, 181	\$36. 92	1, 092	\$36. 97	127	\$32. 10
1968	4, 354	3, 642	44. 23	1, 470	47. 33	161	55. 75
1969	4, 165	3, 464	68. 64	1, 206	70. 33	200	48. 78
1970	3, 874	2, 832	30. 12	1, 037	42. 02	150	35. 52
1971	4, 230	3, 197	35. 30	1, 340	47. 06	158	36. 76
3rd Qtr 1972			(60. 30)		(74. 44)		(55. 53)
STATE OF WASHINGTON							
1967	3, 311	1, 599	\$27. 63	3	\$30. 78	467	\$34. 38
1968	3, 856	1, 795	39. 68	4	39. 38	681	55. 88
1969	4, 230	1, 519	48. 36	3	44. 03	744	74. 66
1970	4, 045	1, 378	30. 06	2	-	602	52. 15
1971	3, 946	1, 261	25. 53	4	33. 63	722	46. 42
3rd Qtr 1972			(48. 35)		(50. 42)		(86. 79)

NOTES: Harvest figures are in MMbf for the entire State.  
Stumpage figures are in dollars per Mbf for the Western half of each State (that portion of the State prone to entry into the export market).

One will readily note the extent to which the stumpage values of State of Washington timber is consistently much more than that on other public timber sales. This is safely attributable to the fact that State of Washington timber can freely enter the export flow; while there are restrictions on all other public sales.

SOURCE: Production Prices Employment and Trade, North West Forest Industries, Pacific North West Forest Ranger Experiment Station, U.S. Forest Service Tables 8 and 34.

## EXHIBIT II-F

## TIMBER SUPPLY, NATIONAL FORESTS

<u>FY YEAR</u>	<u>ACTUAL VOLUME SOLD mmbf</u>	<u>ALLOWABLE HARVEST mmbf</u>
65	11,511	12,725
66	11,383	12,993
67	11,655	13,060
68	11,652	12,980
69	18,931*	13,552
70	13,382	13,538
71	10,636	13,674
72	10,340	13,631

\* - 8.75 Alaska

SOURCE: National Forest Products Association

EXHIBIT III-A

AVERAGE MATERIAL 1/  
COSTS IN A SINGLE FAMILY  
HOME\* 1972

<u>Cost Item</u>	<u>Cost</u>	<u>Percent of Total</u>
Excavation	\$ 243.30	1.7%
Masonry	948.30	6.7
Concrete	1,123.47	8.0
Lumber	2,193.23	15.6
Wood Flooring	438.78	3.1
Millwork	1,455.41	10.3
Carpentry Labor	1,686.75	12.0
Roofing	337.12	2.4
Gutters	104.54	0.7
Lath and Plaster	829.38	5.9
Tile Work	277.00	2.0
Linoleum	288.94	2.1
Electric Wiring	517.54	3.7
Lighting	109.41	0.8
Plumbing	1,314.98	9.3
Heating	650.37	4.6
Painting	678.30	4.8
Insulation	132.38	0.9
Finish Hardware	112.97	0.8
Rough Hardware	127.64	0.9
Incidental Cost	280.41	2.0
Appliances	232.92	1.7
Total Cost:	\$14,083.14	100.0%

\*Approximate sales price: \$25,000

Source: Based on cost data covering 70 cities compiled by NAHB  
Economics Department.

1/ This excludes all hard costs i.e. cost of land, financing cost, overhead,  
and profit.

## EXHIBIT III-B

WHOLESALE PRICE INDEXES  
ALL INDUSTRIAL COMMODITIES VS. WOOD PRODUCTS  
1971 - 1973  
(1967 = 100)

Month	All Industrial Commodities			Douglas Fir Softwood Lumber			Softwood Plywood			Millwork 1.		
	1971	1972	1973	1971	1972	1973	1971	1972	1973	1971	1972	1973
January	112.2	115.9	120.0	108.0	148.2	169.5	108.7	137.9	160.5	114.2	124.9	131.4
February	112.5	116.5	121.3	122.0	151.4	188.3	123.6	145.8	186.1	115.2	125.5	133.4
March	112.8	116.8		135.6	153.6		136.1	153.5		116.2	125.8	
April	113.3	117.3		133.9	156.3		127.4	153.3		118.6	126.6	
May	113.7	117.6		135.7	159.1		118.6	155.6		120.3	127.6	
June	113.9	117.9		139.0	160.8		118.7	157.9		122.2	128.4	
July	114.5	118.1		147.3	165.4		122.5	160.5		122.8	129.6	
August	115.1	118.5		150.9	166.8		138.7	162.1		123.8	130.0	
September	115.0	118.7		149.6	167.3		136.5	159.7		123.7	130.2	
October	115.0	118.8		142.4	167.9		131.1	159.7		123.7	130.7	
November	114.9	119.1		141.5	168.1		130.5	157.4		123.7	130.9	
December	115.3	119.4		143.5	168.3		134.1	155.2		124.3	130.7	

SOURCE: U. S. Bureau of Labor Statistics, Wholesale Prices and Price Indexes, various issues. Table 6 - Code #08.

1/Includes such items as kitchen cabinets, doors, window frames and roof trusses.

## EXHIBIT III-C

WHOLESALE PRICE INDEXES  
ALL CONSTRUCTION MATERIALS AND WOOD PRODUCTS  
(1967 = 100)

MONTH	ALL CONSTRUCTION MATERIALS			LUMBER*			MILLWORK*			PLYWOOD*		
	1971	1972	1973	1971	1972	1973	1971	1972	1973	1971	1972	1973
JAN	113.4	123.2	129.4	113.0	146.9	169.0	114.2	124.9	131.4	104.9	120.2	134.1
FEB	114.9	124.2	NA	120.3	150.4	182.3	115.2	125.5	133.4	112.8	125.1	149.4
MAR	117.2	124.9		129.0	152.4		116.2	125.8		120.2	128.9	
APR	118.0	125.7		131.5	155.1		118.6	126.6		115.6	128.9	
MAY	118.5	126.2		132.8	157.0		120.3	127.6		111.0	130.3	
JUN	119.0	126.6		134.4	159.0		122.2	128.4		110.2	131.7	
JUL	120.9	127.2		142.5	161.6		122.8	129.6		111.7	132.9	
AUG	122.9	127.8		146.7	164.1		123.8	130.0		120.5	135.9	
SEP	123.0	128.0		146.8	165.1		123.7	130.2		119.1	134.6	
OCT	122.2	128.3		142.7	166.1		123.7	130.7		116.2	134.6	
NOV	122.0	128.4		141.9	166.8		123.7	130.9		115.9	133.3	
DEC	122.4	128.5		143.8	167.9		124.3	130.7		117.8	132.2	

\*Includes softwood and hardwood

SOURCE: U.S. Department of Commerce, Construction Review, Table E-2  
U.S. Department of Labor, Monthly Labor Review, Table 27

## EXHIBIT IV-A

New One-Family Homes Sold, by Sales Price-  
Not Seasonally Adjusted

<u>Period</u>	<u>Median Sales Price (dollars)</u>
1963	18,000
1964	18,900
1965	20,000
1966	21,400
1967	22,700
1968	24,700
1969	25,600
1970	23,400
<u>1971</u>	
January	23,900
February	24,500
March	24,300
April	25,800
May	25,500
June	26,100
July	25,200
August	25,300
September	25,400
October	25,600
November	25,700
December	25,300
<u>1972</u>	
January	24,700
February	26,500
March	27,400
April	26,700
May	27,000
June	26,800
July	27,700
August	28,100
September	28,000
October	28,900
November	28,900
December	29,700

Note: September through December figures preliminary

Source: United States Census Bureau Construction report C25-72-11 Table 5

Mr. ASHLEY. Thank you, Mr. Martin. I exercised some forbearance, because this is a very good statement, and I think it is important that it be read in its entirety. And I think the recommendations you make with respect to H.R. 5769 are most worthy of consideration, and I would be interested in the comments of our other panelists this morning and this afternoon.

I am curious about one—well, I am curious about a number of things—to say the least.

You say the median sales price of a new home in 1972 is \$26,685, that it leaped to \$29,700 a year later, December of 1972. We know what it is in the Washington area. It is in the high thirties. I wonder what that figure would be if you subtract the 235 housing? What do you suppose it would be?

Mr. MARTIN. Well, that would have a tendency to bring the median price up.

Mr. ASHLEY. Very substantially. We know that in our high production years of 1970–71 we were producing somewhere in the neighborhood of 450,000 units of 235 and 236. If we take the 235 increment, sales housing, which is what you are talking about here, and you know that it has got to come in at a price of around \$23,000—something like that—so, if we take out that increment of assisted housing the median price in December of 1972 would have been probably in the \$34,000 to \$35,000 range; is that right?

Mr. MARTIN. Yes, sir. The median, when you take out the Government-assisted programs, is probably up to about \$34,000. This price for the first half of 1972, was \$26,685, and for December of 1972 was \$29,700, so that it did not take place over a year; it took place over a matter of months, this particular jump.

Mr. ASHLEY. That was when the production of our assisted housing was high. I mean, it was somewhere around 20 percent of our overall housing production.

Mr. MARTIN. That is correct.

Mr. SUMICHRAST. The median price of 235 is a little less than what you indicated. It is around \$19,000. I think, if you take into consideration the number—

Mr. ASHLEY. My figures—

Mr. SUMICHRAST [continuing]. Are even better.

Mr. ASHLEY. Absolutely.

Mr. SUMICHRAST. I was going to suggest that the data for homes financed with conventional mortgages by savings and loans and collected by Federal Home Loan Bank Board—

Mr. ASHLEY. Would you identify yourself for the record?

Mr. SUMICHRAST. Michael Sumichrast. I am chief economist for the National Association of Home Builders.

The median price runs about \$35,000 to \$36,000, if I remember right.

Mr. ASHLEY. Conventionally financed?

Mr. SUMICHRAST. That is correct.

[The following supplemental information concerning the median sales price of new homes was submitted for the record by the National Association of Home Builders:]

**INFORMATION SUPPLIED BY THE NATIONAL ASSOCIATION OF HOME BUILDERS  
CONCERNING MEDIAN SALES PRICE OF NEW HOMES**

It is not possible to break out the 235 homes which are included in the sampling conducted by the Census Bureau to arrive at the median sales price of new homes. The Census Bureau only collects data on all FHA insured housing, without distinguishing between subsidized and unsubsidized mortgages. However, it does provide this information for homes with all types of financing, those financed under FHA, those financed under VA, and those financed conventionally. Whereas the median sales price of all new homes in the fourth quarter of 1972 was \$29,000, the median sales price for homes financed under FHA was \$20,700.

The most recent data available from HUD, on the acquisition cost of homes financed with unsubsidized Section 203(b) mortgages as opposed to those financed with subsidized 235 mortgages, indicates that the median acquisition cost for 203(b) homes was \$24,700 during the second quarter of 1972 and for those financed under 235 it was \$18,660. The comparable second quarter figure for 1972 compiled by the Census Bureau for all FHA financed homes was \$20,400.

Set out below are the median sales price of new homes for the four quarters of 1972 as set out in the Census Bureau's Construction Report; C25-72-12.

**MEDIAN SALES PRICE OF HOMES SOLD**

1972	All types of financing	FHA-insured	VA-guaranteed	Conventional
1st quarter.....	\$26,200	\$20,200	\$24,700	\$31,900
2d quarter.....	26,800	20,400	24,800	31,000
3d quarter.....	27,900	20,900	26,000	30,800
4th quarter.....	29,000	20,700	24,600	33,300

<sup>1</sup> Preliminary.

Mr. ASHLEY. Do you have any idea, as the chief economist, how many American families, what percentage of American families can afford a dwelling in this price range?

Mr. SUMICHRAST. Are you talking about conventionally financed or at the median sales prices, \$29,700?

Mr. ASHLEY. Well, let us just go conventionally to start with.

Mr. SUMICHRAST. I think we supplied you with these figures about a month ago, if I remember rightly, about one-third.

Mr. BLACKBURN. Mr. Chairman, I would like to suggest we get all the statements in before we start the questioning, because there are other witnesses.

Mr. ASHLEY. Yes. The chairman stands admonished.

Mr. Hodges, would you proceed, please?

**STATEMENT OF RALPH D. HODGES, JR., EXECUTIVE VICE  
PRESIDENT, NATIONAL FOREST PRODUCTS ASSOCIATION**

Mr. HODGES. All right, sir.

I am Ralph Hodges, the executive vice president of the National Forest Products Association, which has its headquarters here in Washington, D.C.

The National Forest Products Association is a federation of 25 regional and species wood products associations.

I will brief my full statement and submit it and the attachments for the record.



To start off with, we are allied with the homebuilding and building materials dealers in urging that the Congress and the administration correct the deteriorating Federal forest management situation. The heart of this problem is an inadequate supply of available timber. This committee, of course, is familiar with the violent fluctuations in housing demand. When housing starts go from 1.4 million to 2.4 million units in just about a year's time, then sawmill capacity is stretched beyond practical limits. It is amazing that we have performed so well when you consider this dramatic increase in starts and the reduction that took place in Federal timber offerings during the same period.

Federal lands contain 58 percent of all of the Nation's softwood sawtimber—and 52 percent of all softwoods are in the commercial timber areas of the national forests. The national forests are where the readily available increase in softwood sawtimber supply is now. The inventory of mature and overmature timber is wastefully excessive and should be placed under better management. Furthermore, the productive capacity of the Federal lands is grossly underutilized. If we managed the inventory and the growing capacity of the land with reasonable intensity, we would have plenty of lumber and plywood and logs both for domestic use and export.

Now, on log exports, the principal buyer, of course, is Japan, and it needs the wood for its expanding housing program. This issue is complicated by the wide variety of interests involved. There is a variety of timber sellers, timber buyers, port authority interests, labor interests, revenues to support State school systems, foreign trade involvements, and international relations, all of which, and particularly these latter points, make it difficult to think of getting an embargo on the export of all classes of U.S. logs.

In regard to the Export Administration Act, we have one major problem. We are a signatory to the General Agreement on Tariffs and Trade, GATT, and article XX requires that a country can impose an embargo to conserve exhaustible natural resources "if such measures are made effective with restrictions on domestic production or consumption." If we have to agree with that, it would only result in further reduction of the domestic supply.

It is for this reason that the National Forest Products Association supports an extension of the Morse amendment with the reduction of the volume allowed for export from 350 million board feet annually to zero.

We have urged the House Appropriations Subcommittee to require that logs from Federal lands go to domestic mills until such time as the full allowable cut is offered for sale.

We support the objectives of legislation which you have sponsored. We think that an advisory committee will help to focus attention on the key issues, but we must remind the committee that it is a slow process, that we need immediate action and the kind of action that we need, the immediate relief that we need, is to increase Federal timber sale offerings, and that means releasing the funds needed to do the job.

I want to remind you that Representative Al Ullman of Oregon secured an amendment to the Revenue Act of 1971 related to DISC corporations, and this provision gives the President authority to declare a commodity or a "property in short supply" and exclude it from export. He can do it unilaterally. All he need do is issue an Executive order. This gives the executive branch considerable power to deal with a foreign country on an export problem, and we have urged that the executive branch try to get the Japanese to moderate their furious bidding activities that started in December on public timber.

Now, that is the end of my briefing of my prepared statement.

Mr. ASHLEY. You certainly compensated for your colleague. Thank you very much, Mr. Hodges.

[Mr. Hodges' prepared statement with attachments on behalf of the National Forest Products Association follows:]

**NATIONAL FOREST PRODUCTS ASSOCIATION**

1619 Massachusetts Avenue, N. W., Washington, D. C. 20036

March 21, 1973

STATEMENT BEFORE THE  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE  
COMMITTEE ON BANKING AND CURRENCY  
U.S. HOUSE OF REPRESENTATIVES

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I am Ralph D. Hodges, Jr., Executive Vice President of the National Forest Products Association, which has its headquarters office here in Washington, D.C.

The National Forest Products Association is a federation of 25 regional and wood products associations. We represent timber growers, manufacturers and wholesalers of wood products throughout the United States, including over 2,500 small, medium, and large lumber and plywood mills. Members of our many federated associations own and manage much of the 67 million acres of commercial forest land held by the forest industry; the majority, however, are either totally or partially dependent upon the purchase of timber from Federal lands or from other public and private commercial forest resources.

The opportunity to appear before your Committee is appreciated very much.

Before addressing myself specifically to the legislation before your Committee, I would like to briefly set forth our reasons for appearing here today.

The domestic forest products industry currently is faced with a serious supply situation. This, in turn, has created a problem for home builders, retail lumber dealers and the American consumer.

Briefly highlighted, the principal factors complicating the domestic supply situation involve the following:

Conflicting Federal Policies: The supply of timber available to lumber and plywood producers is artificially held down. Conflicting Federal policies inhibit Federal timber managing agencies from offering for sale all the timber that is allowed.

Most of the firms that manufacture the nation's lumber and plywood do not own forest land. They must buy their raw material from outside sources -- principally from the National Forests in the West and from millions of non-industrial woodlot and farm owners in the East. And the availability of timber from these two major sources is not nearly as great as it could and should be.

Timber Supply Insecurity: This is manifested in the artificial shortage of timber and is the number one problem for lumber and plywood producers. Federal lands contain 58 percent of all of the nation's softwood sawtimber -- and 52 percent of all softwoods are in the commercial timber areas of the National Forests. The National Forests are where the readily available increase in softwood sawtimber supply is now. The inventory of mature and over mature timber is wastefully excessive and should be placed under good management. Furthermore, the productive capacity of the Federal lands is grossly underutilized. If we managed the inventory and the growing capacity of the land with

reasonable intensity, we would have plenty of lumber and plywood and logs both for domestic use and export. The Chief of the Forest Service, which manages the National Forest System, has stated that the timber harvest could be increased by 50 percent, if adequate funds were available for tree-growing programs. Yet, funds appropriated by the Congress are inadequate to increase forest management levels. They are even insufficient to permit the Forest Service to sell all the timber authorized -- a limit below that dictated by sound conservation.

Another factor complicating the domestic supply situation is the export of logs.

The principal buyer of U.S. logs is Japan, which needs to supply wood materials for its own expanding home building program. The issue is complicated by the varied interests involved: timber sellers, timber buyers, port authority interests, labor interests, revenues to support state school systems, and most importantly by U.S. foreign trade involvements and international relations. For this last reason, it is probably unrealistic to consider an embargo on the export of all classes of U.S. logs.

We are keenly aware that the Export Administration Act in its declaration of policy states that it is the policy of the United States to use export controls "to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand."

In the invoking of export controls on forest products, we are concerned by the provisions of Article XX of the General Agreement on Tariffs and Trade (GATT).

The preamble to Section XX specifically states that such action is subject to the requirement that it is not to be applied "in a manner which would constitute a means of arbitrary or unjustifiable discrimination between countries where the same conditions prevail, or a disguised restriction on international trade . . . "

Subsection (g) of that article provides that a country can impose an embargo to conserve exhaustible natural resources "if such measures are made effective with restrictions on domestic production or consumption."

It is this GATT provision that concerns us when it is suggested that an embargo be placed on forest products.

Question arises as to whether an embargo of domestic forest products would result in the invoking of subsection (g) requiring restrictions on domestic production or consumption.

If subsection (g) must be complied with, we believe that such a step is not the solution to the current lumber supply problem in our country. It would only result in a further reduction of the domestic supply.

It is for this reason that the National Forest Products Association supports extension of the Morse Amendment with a change to reduce the export of logs from western Federal lands from 350 million board feet annually to zero.

Timber supply pressures in the West will be greatly reduced if an embargo is placed on the export of logs from Federal lands. NFPA has urged a House Appropriations subcommittee to require that logs from Federal lands go to domestic mills until such times as the full allowable cut is offered for sale.

With the Committee's permission, I would like to submit a Backgrounder for Members of Congress prepared by our Association entitled "The Timber Supply Crisis: How It Affects Lumber and Plywood Prices," and a Forest Fact Sheet. I respectfully request that this material be included in the record of this hearing.

Turning now to the specific legislation before your Committee.

H. R. 5769, sponsored by Rep. Thomas L. Ashley, the Chairman of this Committee, would amend the Export Control Act to direct the Secretary of Commerce in consultation with appropriate government agencies and technical advisory committees, to determine which materials and commodities "because of the present or prospective domestic inflationary impact or short supply of such material or commodity" should have export controls invoked for them. The Secretary would also be required to develop forecast indices of domestic demand for such materials to assure a supply for domestic users at stable prices.

Under the proposal, the Secretary also would be required to appoint technical advisory committees for each group of goods which is or may be subject to export controls because of the present inflationary impact or short supply of such commodity to evaluate (1) technical matters, (2) licensing

procedures, (3) worldwide availability, and (4) actual use of domestic production facilities and technology.

While our industry supports the objectives of such legislation, we are concerned that the best answer to the current domestic timber supply crisis is to increase federal timber offerings immediately. The legislation is a long drawn-out procedure that does not provide the immediate relief that is needed.

The forest products industries support the home builders' proposal that President Nixon "release funds for the Forest Service that have been cut back or impounded so that it may more adequately staff, manage and develop Federal forestlands." The industry also supports builders' recommendations that the President "direct the Forest Service to offer for sale beginning July 1, the full allowable cut on the National Forests and to announce that an appropriately high level of sales will be maintained in the coming three fiscal years."

A requirement such as this would do much to relieve the current supply problem, and, as we understand, because such a restriction would be applied to government-owned property, it would not be subject to the limitations of Article XX of the GATT.

Additionally, as suggested by Rep. Al Ullman of Oregon, more prompt relief for the timber supply shortage could be obtained by the invoking by the President of Section 501 (c) (3) of the Revenue Act of 1971 (Public Law 92-178) relating to Domestic International Sales Corporations (DISC).

That provision entitled "Property in Short Supply" grants the President authority, where an export is not in sufficient supply to meet the demands of



the domestic economy, to exclude such property from export. The President need only issue an Executive Order designating it to be in short supply.

Such action by the President would be a partial answer to an export problem. It appears to be limited to products exported under the provisions of the DISC law.

We are aware of our country's serious balance of payments problems and the significant part that increased exports would play in reversing the trade deficit.

However, we contend that export pressures which cause serious domestic inflation are not the proper method by which to resolve our balance of payments problems and should be moderated by the Executive Branch.

The forest products industry is concerned. Because of this, the industry is allied with the home builders and building materials dealers in urging that Congress and the Administration correct the deteriorating Federal forest management situation. The heart of the problem is an adequate timber supply. This Committee, of course, cannot overlook the violent fluctuations in housing demand. When starts go from 1.4 million to 2.4 million in a year's time, then mill capacity is stretched beyond practical limits. It's amazing that we have performed so well when you consider the dramatic increase in starts and the reduction that took place in Federal timber offerings over the past three years.

In our testimony here today, we have tried to set forth what we feel to be the solution to the timber supply problem. We stand ready to assist this Committee, the Congress and the Administration in any way we can to resolve it. Our efforts are limited. It is the Congress and the Administration that hold the key to the solution.

March, 1973

FOREST FACT SHEET1. Softwood Sawtimber, 1970

<u>Ownership</u>	<u>Inventory</u>	<u>Harvest %</u>	<u>Harvest % of Inventory</u>	<u>Growth%</u>
National Forest	52%	27%	1.3%	21%
Other Federal	6% *	4% *	[ 1.9%	{ 10%
Other Public	6% *	5% *		
Forest Industry	16%	34%	5.1%	25%
Other Private	<u>20%</u>	<u>30%</u>	<u>3.8%</u>	<u>44%</u>
Total Volume	1.9 trillion bf	48 billion bf		40 billion bf
	* NFPA estimate			

2. Commercial Forest Land Ownership, Softwood Types (1970)

	<u>East</u>	<u>West</u>	<u>U.S.</u>
National Forests	7.0%	56.7%	30.8%
Other Public	7.4%	13.1%	10.1%
Forest Industry	23.5%	11.1%	17.6%
Other Private	<u>62.1%</u>	<u>19.1%</u>	<u>41.5%</u>
Total Softwood Types	114	105	219
million acres			
Total Hardwood Types	243	18	261
million acres			
Non Stocked	14	6	20
million acres			

3. Productive Public Forest Land Withdrawn From Timber Harvesting-National Parks, Wilderness, etc.

January 1, 1953	14,744,000 acres
January 1, 1963	16,008,000 acres
*January 1, 1970	17,236,000 acres - 12% larger than area of W. Va.
	* Does not include 2.7 million acres administratively deferred for Wilderness study

4. Softwood Lumber, Plywood & Logs

	<u>1969</u>	<u>billion feet</u>		
		<u>1970</u>	<u>1971</u>	<u>1972</u>
Lumber Production - board feet	28.1	27.4	30.3	32.1
Lumber Imports - board feet	5.8	5.8	7.2	9.0
Lumber Exports - board feet	1.0	1.1	0.9	1.2
Plywood Production - square feet	14.5	14.6	16.4	18.5
Plywood Imports - square feet	.0	.0	.0	.0
Plywood Exports - square feet	.0	.0	.1	.0
Log Exports - board feet (log scale)	2.3	2.7	2.2	3.0
Log Exports - board feet	(3.2)	(3.8)	(3.1)	(4.3)
(lumber tally equivalent)				

5. Softwood Stumpage Average Prices - National Forests except Alaska, \$/TndBF

	<u>All Sftwd. Species</u>		<u>Douglas-fir, Western Ore. &amp; Wash.</u>	
	<u>Bid</u>		<u>Appraised</u>	<u>Bid</u>
Fourth Qtr. 1967	\$ 23.90		\$ 27.57	\$ 42.81
Fourth Qtr. 1968	49.95		40.50	91.70
Fourth Qtr. 1969	31.39		41.25	65.11
Fourth Qtr. 1970	22.02		28.86	37.47
First Qtr. 1971	20.05		31.97	44.73
Second Qtr. 1971	22.69		40.12	45.62
Third Qtr. 1971	28.94		43.49	52.15
Fourth Qtr. 1971	39.59		51.06	54.13
First Qtr. 1972	35.68		-	-
Second Qtr. 1972	36.75		-	-
Third Qtr. 1972	51.15		-	-

6. Softwood Lumber & Plywood Wholesale Price Index (1967 = 100)

	<u>Softwood Lumber</u>		<u>Softwood Plywood</u>	
	<u>February</u>	<u>August</u>	<u>February</u>	<u>August</u>
1968	110.2	123.8	112.5	127.0
1969	150.8	120.8	220.0	104.6
1970	112.9	113.7	111.2	120.3
1971	122.8	154.5	123.6	138.7
1972	158.1	172.7	145.8	162.1
1973	192.4	-	186.1	-

7. Housing Starts, Total Public and Private

1967 - 1,322,000	1969 - 1,500,000	1971 - 2,083,000
1968 - 1,546,000	1970 - 1,469,000	1972 - 2,377,000

8. Average Lumber & Plywood Used Per Residential Unit (1968)

	<u>Lumber</u>	<u>Plywood</u>
Single Family	12,900 bf	4,450 sq. ft.
Garden Apt.	5,800 bf	2,370 sq. ft
Hi-Rise Apt.	1,340 bf	910 sq. ft.

9. Estimated Lumber & Plywood Uses in an Average Year

	<u>Residential</u>	<u>Other Const.</u>	<u>Manufacturing &amp; Others</u>
Lumber	43%	43%	14%
Plywood	49%	12%	39%

Prepared by  
National Forest Products Assn.  
Washington, D. C.

SOFTWOOD LOG AND LUMBER EXPORTS:  
Facts, Problems and Solutions

Since 1951, the U. S. has exported annually between 0.5 and 1.2 billion board feet of softwood lumber. By comparison, imports of softwood lumber have climbed from 2.3 billion feet in 1951 to 9.0 billion feet in 1972, almost all from Canada. Exports of softwood logs were minor until 1964 when they first exceeded 1 billion feet (log scale). In 1972, log exports reached 3.0 billion board feet. Approximately 93% of these log exports originated from the West Coast states. The following table sets these volumes in perspective with domestic lumber production for the years 1970-72:

		1970	1971	1972
Softwood lumber production	MMMBF	27.4	30.3	32.1
Softwood lumber imports	" "	5.8	7.2	9.0
Softwood lumber exports	" "	1.2	0.9	1.2
Softwood log exports (log scale)	" "	2.7	2.2	3.0
Softwood log exports (lumber tally equivalent)		(3.8)	(3.1)	(4.3)

Exports of softwood lumber are sent to a wide variety of countries, including Japan, Italy and Australia. About 90 percent of the lumber shipped to Japan is from Alaska and accounts for about 98 percent of that state's lumber production. In 1972, about 82% of the softwood logs shipped from the West Coast states originated in the State of Washington, 12% from Oregon and the remainder from California and Alaska. About 90% of the logs exported from the West Coast states went to Japan, the remainder mostly to Canada.

Exports of logs from federal lands in the West are limited to 350 million board feet annually by the Morse Amendment to the Foreign Assistance Act of 1968 as extended. However, it is estimated that only 250 million feet has originated from the federal forests annually in the past few years. The principal sources of export logs are forest lands owned by industry and non-industrial private owners (farmers, etc.) and forest lands owned by the State of Washington.

Legislation: Since 1968 there have been several attempts to restrict log exports. In that year the voters of Washington defeated by 2 to 1 a referendum proposition which would have required domestic processing of timber sold from state-owned lands. Revenues from the sale of state timber are used to finance school operation in the State of Washington. Also in 1968, after extensive hearings by Senator Morse's Small Business Committee, Congress adopted the Morse Amendment. In 1972, Senator Packwood, Senator Morse's successor from Oregon, conducted hearings on the log export issue and has recently proposed legislation that would prohibit log exports from federal lands and eliminate log exports from private lands over a four year period.

Positions: The opponents of log and lumber exports are a diverse group, ranging from the preservationists, opposed to timber cutting, manufacturers who must bid against export buyers for timber, and lumber and plywood users who feel that more wood products would be available at lower prices if the export demand were eliminated.

The opponents of restrictions on exports are also a diverse group: landowners, including the State of Washington taxpayers, port authorities, dock-worker unions, loggers and truckers and those opposed to further restrictions of private property rights. Timber growers enjoy the consistently higher prices they obtain from the export market which justifies more intensive investments in timber growing.

Analysis: A log export embargo would have an impact on domestic lumber and plywood prices in the short term only if there was idle mill production capacity in the exporting areas. It would take some time before new mill capacity could be installed to process the additional logs. However, reducing the total demand for timber by an export embargo would likely reduce log prices and lead to a smaller volume offered for sale by landowners. The Japanese would shift their buying to Canada and from logs to lumber because of Canadian restrictions on log exports. Sixty percent of Canadian lumber production now comes to the U.S. and the Japanese would likely buy some of the Canadian lumber to make up for a reduced volume from the U.S. Already, the Japanese are causing increased competition and higher prices for Canadian lumber. Lumber purchases would probably be in the form of cants (squared-off logs) which would be further manufactured by Japanese sawmills, instead of logs, into the lumber sizes demanded in the Japanese market.

Lacking idle mill capacity in the exporting areas, a log export embargo will not lead to lower prices for wood products. Short term prices for wood products are determined by supply-demand relationships at the consumer level, not by the costs of production. Thus, lower timber prices cannot be passed through to reduce consumer prices when consumer demand outruns manufacturing capacity. Nor, conversely, can higher timber prices be passed through to force increases in product prices. This was evident in 1969 when product prices plunged and many timber buyers were left holding high-priced timber they could not profitably harvest.

The real threat posed by log exports is the danger of an eventual loss of mill capacity precipitated by a downturn in the domestic market, where mills left holding high priced timber - high priced because of the export competition - are unable to harvest the timber at a profit and must default on contracts. On the other hand, if the export market remains strong, it provides an alternative to a weak domestic market, as was the case in 1970, and helps retain capacity for later use as required by the domestic market.

Recent Activity: The strength of the American homebuilding boom combined with the start up of the homebuilding boom in Japan is resulting in a chaotic West Coast timber market. The Japanese reduced their purchases of logs and lumber in 1971, expecting to be able to buy more in 1972 at lower prices. Much of the Japanese buying in the past several months seems to be panic buying. Timber and log prices have been bid to very high levels, actually double and triple what the products could sell for in the domestic market. At these price levels, mills might be encouraged to shut down and sell their timber and logs for export rather than to manufacture for the domestic market. Isolated cases of this have been reported.

Solutions: As stated above in the analysis, a complete embargo would be of questionable effectiveness in the long run because the Japanese would draw from Canada lumber now coming to the U.S. An embargo would have some temporary benefits if exports were leading to less than full use of mill capacity; but this is not yet the case. It is probably unrealistic to propose an export embargo because of: (1) the complications of our foreign trade commitments including the GATT agreements and the requirements of the Export Control Act, and (2) the current balance of payments crisis which is most lopsided with Japan. A more practical approach would be to have our Executive Branch hold government-to-government discussions to encourage the Japanese to reduce their reckless bidding activities and to hold buying to past levels. This should be coupled with a prohibition of log exports from federal lands which could be done legislatively.

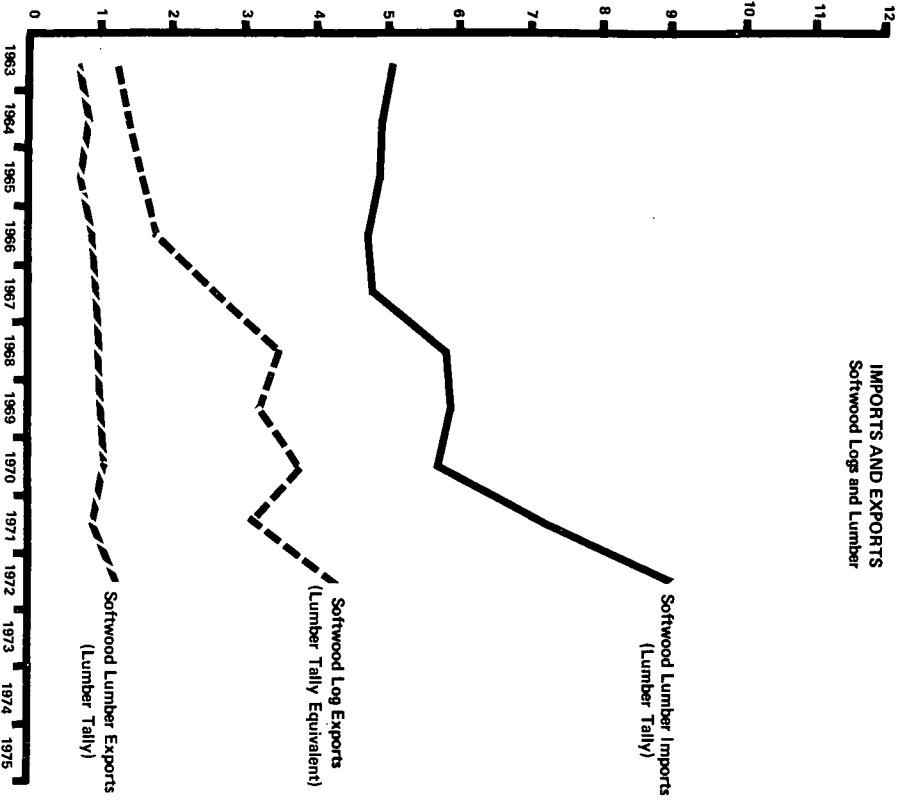
IMPORTS & EXPORTS  
Softwood Logs and Lumber  
(Billions of board feet)

Year	Lumber Imports (lumber tally)	Lumber Exports (lumber tally)	Log Exports	
			(log scale)	(lbr. tally equiv.) <sup>1/</sup>
1963	5.0	0.7	0.9	(1.2)
1964	4.9	0.8	1.0	(1.4)
1965	4.9	0.8	1.1	(1.6)
1966	4.8	0.9	1.3	(1.8)
1967	4.8	1.0	1.9	(2.6)
1968	5.8	1.0	2.5	(3.5)
1969	5.8	1.0	2.3	(3.2)
1970	5.8	1.2	2.7	(3.8)
1971	7.2	0.9	2.2	(3.1)
1972	9.0	1.2	3.0	(4.3)

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<sup>1/</sup> Lumber tally equivalent is estimated to be 1.4 times the log scale volume.

Billions of Board Feet





SITUATION REPORT - SOFTWOOD LUMBER AND PLYWOOD  
March 16, 1973

The demand for wood products reached record highs in 1972, buoyed by the strength of the housing market. Housing starts reached 2.377 million, compared with an average level of 1.44 million during the decade of the Sixties. Consumption of softwood lumber reached 40.5 billion board feet. Shipments from domestic mills were 32.8 billion board feet. However, production of 32.1 billion board feet fell short of matching shipments, consequently drawing mill inventories down to their lowest level since 1947. Imports of softwood lumber, almost entirely from Canada, reached 9.0 billion board feet.

Comparing softwood lumber data for 1972 with those of 1971, itself a record year in most respects, yields the following percentage increases:

Production up 6.2%

Shipments up 6.5%

Mill inventories down 16.4%

Imports up 23.9%

Consumption up 9.0%

The data for softwood plywood show similar changes. Production and shipments reached 18.5 billion square feet, up 12.8% from the level achieved in 1971. Warehouse inventories of plywood at the end of the year were reported to be at very low levels. Imports of softwood plywood were negligible, following the usual pattern.

Export demand for wood products also rose sharply, largely on the strength of strong pull from the Japanese homebuilding boom. Softwood log exports from the West Coast reached 2.8 billion board feet, compared with 1.9 billion feet in 1971. These volumes, which are stated in log scale basis, are equivalent to approximately 3.5 billion board feet and 2.4 billion board feet of lumber respectively. An additional 200 million board feet (log scale) of logs were exported from other areas of the U.S. in 1972, for a total U.S. log export of 3.0 billion board feet (log scale).

Softwood lumber exports were up 29% to a volume of 1.2 billion board feet. It should be noted, however, that exports of softwood logs and lumber in 1971 were both down from year earlier levels because of the 1971 shipping strike on the West Coast. Plywood exports were negligible.

On balance, the volume of all solid wood products exported in 1972 was about half the volume of all such products imported.

The strong demand in 1972, which attracted record levels of production and imports, also had its effect on prices, a sign that despite the increased volumes supplied there was still much unsatisfied demand. The wholesale price (mill price) index for softwood lumber in December 1972 was 177.2, up from 150.4 in December 1971. The index for softwood plywood was 155.2, up from 134.1 a year earlier. By comparison, the wholesale price index for all commodities was 122.9, up from 115.4 in December 1971.

These price increases took place during the time the Phase II price control regulations were in force. Under the regulations, producers could increase prices above their company freeze period base levels to reflect cost increases. This could account for some of the price increases. However, there were also reports that producers were curtailing the production of items with low ceilings in favor of items with higher ceilings. This action would obviously have the effect of eliminating the prices at the low end of the range and raising the average. Toward the end of the year some operators were reported to be curtailing their production in order to finish the year within their profit margin limits, although no statistical evidence is available to support or deny these reports.

If some operators did choose to limit their profits by curtailing production, rather than lowering prices, as the Price Commission would have preferred, it would have been because of the interaction between price controls and a tight timber supply. With all other costs relatively fixed, lowering prices would have the effect of accepting lower value for timber. But since timber is easily stored on the stump, many operators could have chosen to hold their timber until the next fiscal year when they could get full value for it. This would have resulted in their harvesting only enough to maintain their labor forces and meet fixed costs. This same situation would prevail any time controlled prices were lower than those of the unfettered market.

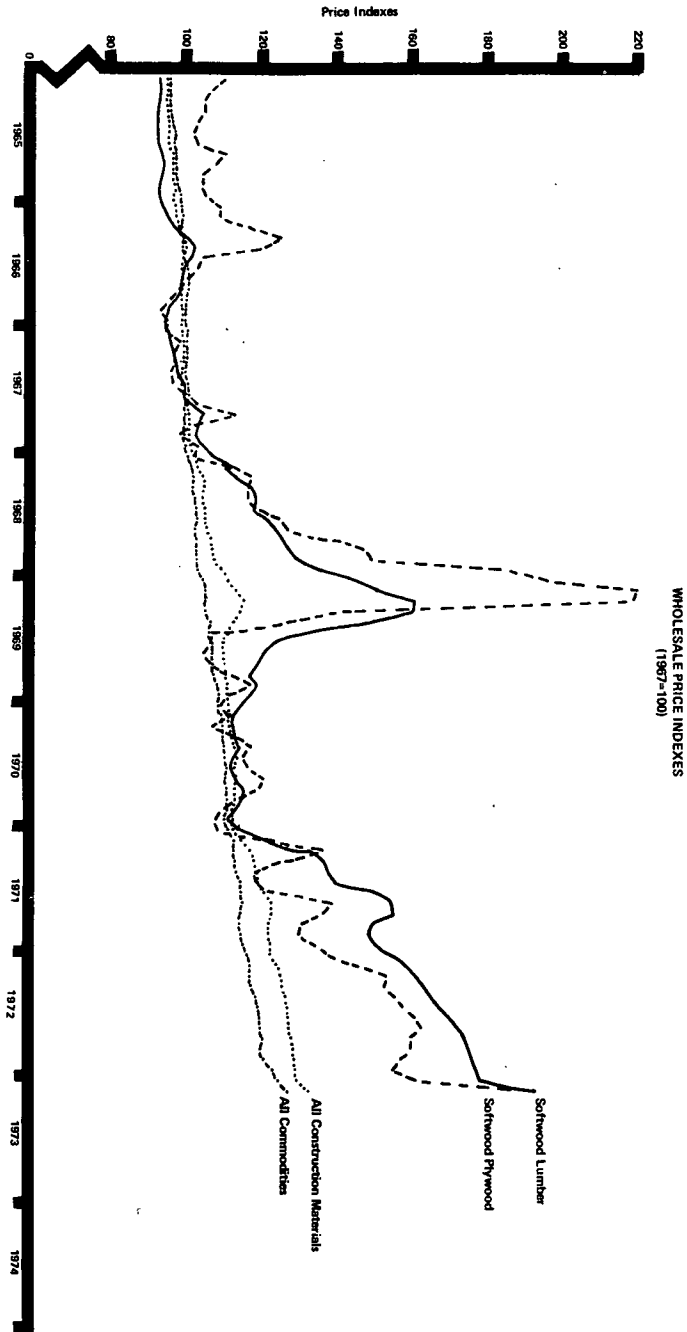
Despite the high rates of production during the year and the obviously high concurrent rates of timber harvest, the sale offerings of timber from the National Forests fell again for the second straight year. The volume of sawtimber sold by the Forest Service, which reached 11.7 billion board feet in the poor market year of FY 1970, fell to 8.8 billion board feet in FY 1972. The National Forests, which contain 52 percent of the nation's inventory of standing softwood sawtimber, are an important source of raw material to the lumber and plywood industry, especially in the West.

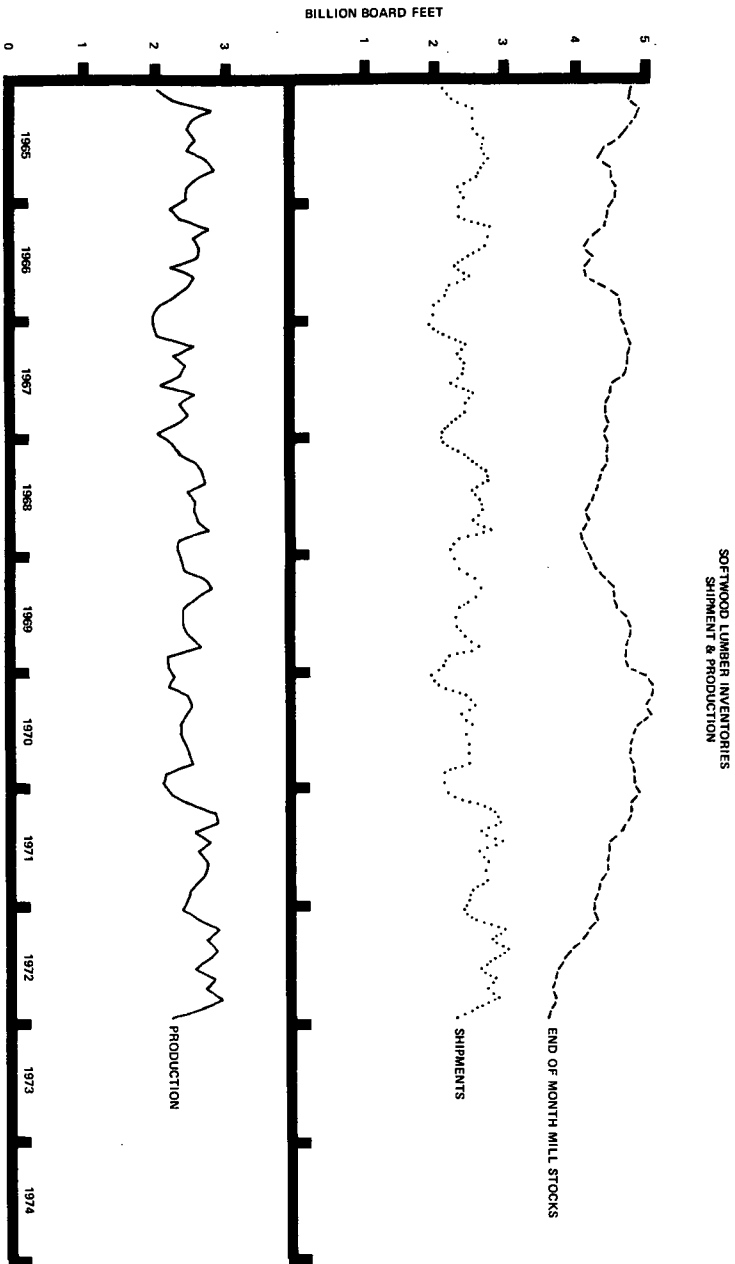
The outlook for wood products is one of continued strong demand through 1973 with continued tightness of supply. There will be a demand to build up low mill and warehouse inventories, in addition to the demand resulting from consuming uses. Housing starts are expected to be between 1.9 and 2.0 million

and nonresidential construction is expected to rise 6% in physical volume over 1972. Manufacturing uses of wood products are also expected to rise 6%. Softwood lumber consumption for all of these uses is expected to be about 39.3 billion board feet, including about 9 billion board feet of imports. Consumption of softwood plywood is projected to be between 17.9 and 18.3 billion square feet.

The slight declines in demand together with freedom from the constraining influences of Phase II should have a moderating influence on prices after a period of adjustment. Phase III, which was announced by President Nixon on January 11, 1973, is expected to be less disruptive to production and normal price relationships than was Phase II. However, the changes in price control procedures have had significant effects on both prices and production of wood products. In February, the wholesale price index for softwood lumber jumped to 192.4 from January's 178.0. For softwood plywood the index jumped from 160.5 in January to 186.1. But prices are now expected to level or even decline in response to the increased production that has resulted from the relaxation of price controls. However, a new problem, rail car shortages, has served to restrict shipments and, in the opinion of many producers, led to prices being buoyed up.

Perhaps the biggest cloud on the outlook horizon is, again, timber supply. Unless steps are taken to improve the availability of timber for harvesting there will be a continuing tendency for manufacturers to reserve the timber already available to them in order to ensure maintaining production in future years.





FEDERAL TIMBER SUPPLY:  
Facts, Problems, and Solutions

Commercial Forest Lands and Softwood Sawtimber Volumes. Approximately 500 million acres in the United States are classified as commercial forest land -- land capable of producing industrial wood crops and not otherwise withdrawn from timber management. According to the latest Forest Survey data compiled in 1970 by the Forest Service, U.S. Department of Agriculture, about 107 million acres or 21 percent of all commercial forest land is Federally owned with 92 million acres located in the National Forests and around 5 million acres on Bureau of Land Management lands. These two Federal ownerships supply almost all the available Federal timber.

Allowable Cut and Timber Harvest. Based on the available commercial forest land acreages, the existing timber inventory and potential timber growth rate, the Forest Service determines an annual allowable cut that assures a sustained yield of the National Forest timber resource. Sustained yield is the level of timber output that can be maintained in perpetuity dependent on the timber growing capabilities of the available commercial forest lands.

Once the allowable cut for a National Forest has been determined, the Forest Service develops a timber harvesting program that will periodically remove a volume of timber at a sustained-yield rate. According to 1972 figures, the allowable cut on all National Forests totaled about 11.6 billion board feet of sawtimber (mostly softwood), while the actual volume cut or harvested amounted to around 10.2 billion board feet during fiscal year 1972.

Appraising and Selling Timber. Before the Forest Service offers National Forest timber for sale, a timber appraisal for each particular timber sale is required to determine the stumpage value (the value of the standing trees) for each tree species and size category. The primary appraisal method used is the residual value concept. Under this concept, the stumpage value is determined by subtracting the cost of production and the margin for profit and risk from the selling price of the products manufactured.

As soon as the appraised stumpage value has been determined, the timber is advertised for bidding. The appraised price is the minimum acceptable bid for a particular timber sale. The Forest Service does not sell the timber for less than the appraised price. In areas of intense competition among timber purchasers or where local timber shortages frequently occur,

the timber is often sold at a price that far exceeds the Forest Service appraised price. This means that the prospective purchaser must either reduce his operating costs or be satisfied with a smaller profit and risk margin.

Trend of Federal Timber. Adding to the dilemma of regional timber supply shortages is the recent fall-down of the National Forest timber sale program, especially during the past two years. For fiscal year 1971, only 9.2 billion board feet of sawtimber was sold instead of the planned 11.5 billion and in fiscal year 1972, only 8.8 billion board feet was sold compared with the planned 10.5 billion. Projections for fiscal year 1973 indicate that about 8.8 billion of an estimated planned 9.6 billion board feet will be offered for sale. Timber sold in one year is usually harvested within the next few years.

Fifty-two percent of the nation's softwood sawtimber inventory is located on National Forest lands, which during 1970 supplied only 27 percent of the total harvest. On forest industry holdings with only 16 percent of the softwood sawtimber inventory, about 34 percent of the total softwood sawtimber harvest was provided. This means that the National Forests, with the majority of softwood sawtimber inventory, are supplying less than one-third of the timber, while forest industry lands provide a disproportionate share to satisfy the nation's need for softwood sawtimber.

Softwood sawtimber is the primary raw material for softwood lumber and plywood and plays an essential role in evaluating current and future product availability.

The trend during the past two years has been a continual decline in timber sale offerings from National Forest lands, thus placing an additional burden on other land ownerships. Part of this reduction of the Federal timber sale program is due to the continued shrinking of the timber growing base on Federally owned commercial forest lands, inadequate funding for timber management programs, and litigation against timber sales by some preservationist groups.

Solutions. Any expansion in the nation's timber supply over the next twenty years must come from the Federal lands simply because that is where the timber inventory is. Small increases can be obtained within the limits of what the Forest Service now defines as the allowable cut by funding the Forest Service more adequately and giving it the direction to get the job done. Much larger increases can be obtained within the limits of sustained yield by removing some of the unnecessarily restrictive policies which tend to depress the calculated allowable cut. Even larger increases can be obtained by increasing the growth on the National Forests through intensified forestry which, in turn, permits a greater rate of harvest. The last step would be far reaching and

require improved methods of financing National Forest timber management. The proposed Timber Supply Act of 1969 would have financed timber management by reinvesting a portion of National Forest timber sale receipts into timber management instead of depending on the annual appropriations process.

The deteriorating situation with respect to the sale lag between planned and actual annual allowable cut clearly indicates inadequate funding. The Forest Service and the Office of Management and Budget should be obliged to state publicly the total funds required to sell the full allowable cut immediately. Selling the full allowable cut is non-controversial and, if accomplished, would afford greater timber supply security to manufacturers and thus to the market. Failure to offer the full allowable cut for sale year after year imposes unnecessary financial loss to the Federal treasury.



NATIONAL FOREST TIMBER SALE PROGRAM  
Sell and Harvest Accomplishments - Sawtimber (only)

FISCAL YEAR 1965 - 1974

Fiscal Year	Allowable Harvest As of Jan. 1	Volume of Timber Sold		Volume of Timber Harvest	
		Planned <sup>1/</sup> (million board feet) 2/	Actual (million board feet) 2/	Per Cent Accomplishment	Per Cent Accomplishment
1965	11,094	10,934	10,454	96	94
1966	11,292	10,683	10,382	97	99
1967	11,331	11,087	10,508	95	87
1968	11,429	10,773	10,681	99	92
1969	11,466	11,031	8,901 <sup>3/</sup>	81	87
1970	11,545	12,754	11,667	91	77
1971	11,544	11,509	9,175	80	69
1972	11,568	10,470	8,817	84	78
1973	11,512	(9,600) <sup>4/</sup>	(8,800)	(92)	(86)
1974	(11,000)	(9,800)	(9,000)	(92)	(98)

Source:

Forest Service Timber Sale Accomplishment Reports FY 1965 through FY 1972  
FY 1973 and 1974 performance is estimated

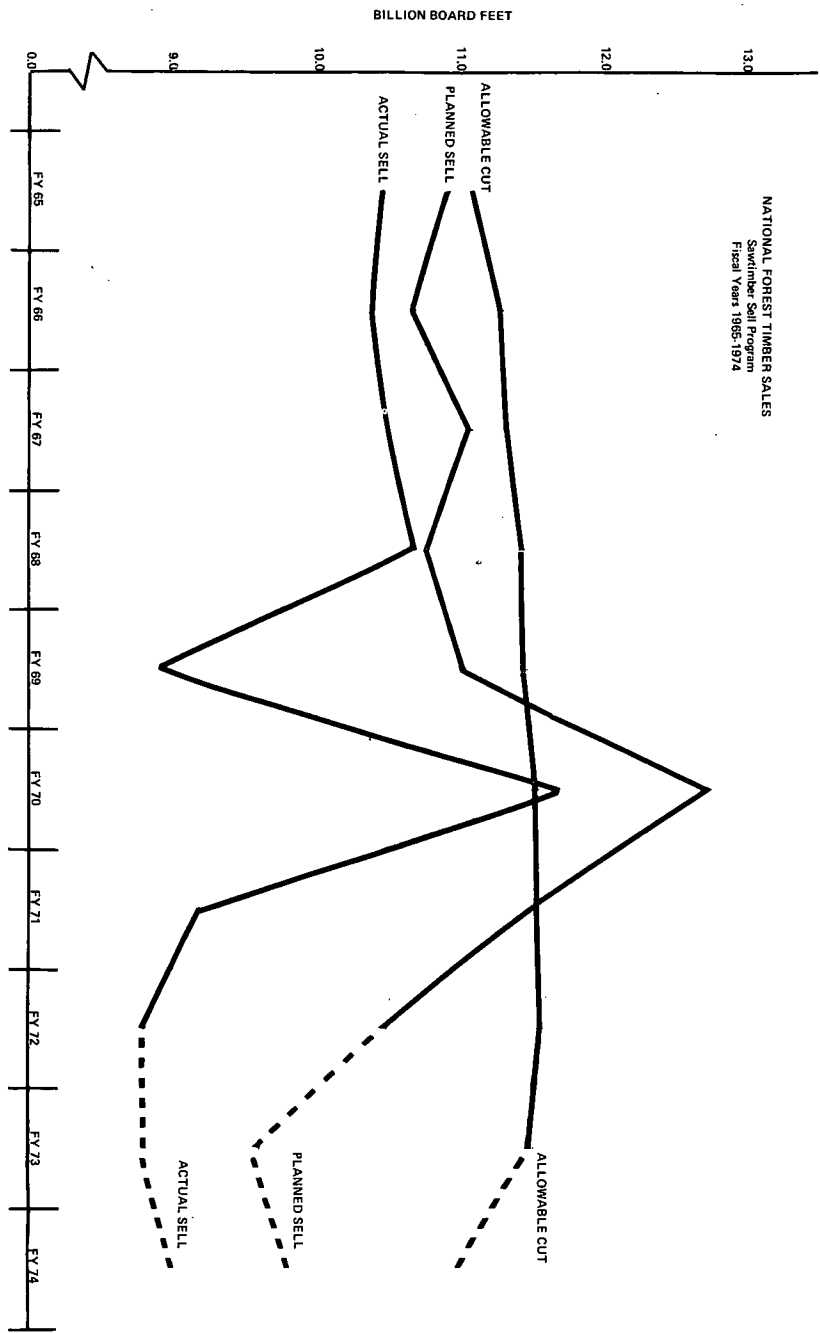
<sup>1/</sup> Planned Sold and Harvest volumes include some convertible products.

<sup>2/</sup> Local Scale

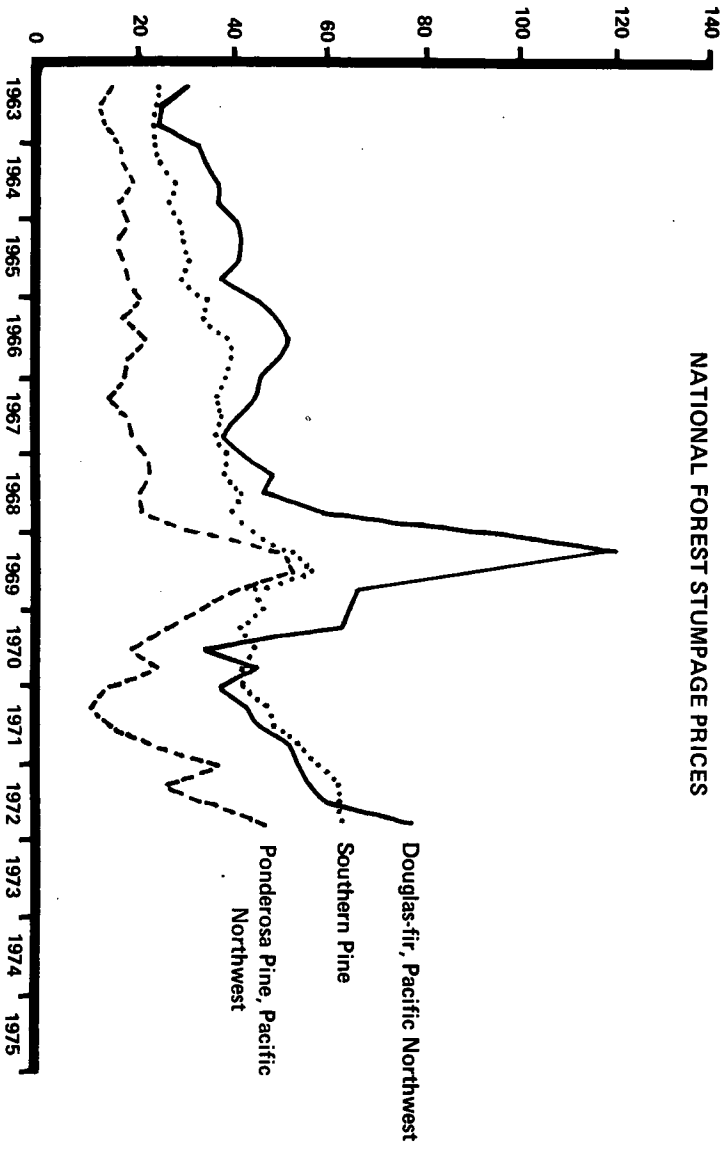
<sup>3/</sup> After deduction of 8.75 billion board feet of Juneau Unit Pulp Sale in Alaska

<sup>4/</sup> Figures in parentheses are estimates

NFPA  
March 1973



Dollars Per Thousand Board Feet



Mr. ASHLEY. Mr. Mullin.

**STATEMENT OF TERRY MULLIN, PRESIDENT, NATIONAL LUMBER  
AND BUILDING MATERIAL DEALERS ASSOCIATION**

Mr. MULLIN. Mr. Chairman, gentlemen. We will submit my statement in writing later this morning. There were some corrections in it that are being made at this time.

My name is Terry Mullin, and I am president of the Terry Building Centers. We are engaged in the retail lumber and building supply business in southern California and Arizona, and for the year 1973 I am serving as the president of the National Lumber and Building Material Dealers Association headquartered here in Washington.

Our association is composed of 30 regional, State, and metropolitan area federated retail lumber and building supply associations, with a total membership in excess of 12,000 companies, many of which have multiple yard outlets. We represent dealers in every State in the Nation, and this association is the sole spokesman for our industry on matters of national scope and interest.

As retail lumber dealers, our members are the final link in the distribution chain from the forest to the consumer. We buy lumber from wholesalers and also directly from mills. We sell to homebuilders, commercial and industrial firms, and to the public at large. We warehouse large inventories at all times, extend credit and various other things to our customers. We also handle a wide variety of nonlumber building products and equipment. Some of our members engage, directly or indirectly, in new homebuilding, and many of them are heavily involved in remodeling and repair.

We welcome this opportunity to testify on the current lumber and plywood shortage, particularly with respect to the effect of exports on domestic timber supply. We recognize, as we are sure this subcommittee does, that exports are only one facet of the complex lumber supply problem, and for this reason and in order to place the effects of exports in proper perspective, we will also discuss, if we may, briefly, other aspects of lumber products shortage problems.

Because our business is dependent on an adequate supply of lumber products, we are keenly aware of division and restrictions occurring at any of the supply, production, and distribution levels before the product reaches our hands. Likewise, we are very sensitive to the problems encountered by our customers, whether it is the shortage of mortgage money, the high price of land, or their need for a prompt and assured flow of building materials at a determinable price. For example, we know that builders must have materials delivered at a specific time for construction as it progresses, and at known prices so they can accurately estimate costs, quote end-product prices to their customers or their clients.

At the present time, in many areas, certain lumber and wood items cannot be obtained at any price, and yet the demand for lumber increases. As you have heard inventories are dangerously low from mills to final distributors.

The building industry is in a turmoil because there is no assurance when, at what price, or even whether lumber products can be delivered for home construction, commercial and industrial use.

With our Nation having had 2 years, back-to-back, of record high housing starts, up 61 percent from 1970 to 1972, and with housing in 1973 continuing the record and, further, with commercial and industrial construction rising in volume, prospects of early relief from the shortage problem are very dim unless firm and very positive action is taken.

Long-term projections of high lumber products requirements clearly indicate why we say that the United States is faced with a long-term as well as an immediate lumber supply crisis. According to a study by the U.S. Forest Service, demands for timber based on products will increase from 13 billion cubic feet in 1970 to 22.6 billion cubic feet in the year 2000.

One reason we have a shortage of lumber is because we do not use our timber resources intelligently. Where timberland is intensively managed, as in the case of industrially owned timber, an average of about 52 cubic feet of new growth per acre per year is attained. New growth on public lands is only about half of that, or 27 cubic feet per acre per year. Growth on privately owned timberland not managed for timber production is much less than either the industrial or public lands. Public-land timber growth and consequent allowable harvest could be substantially increased if modern forest management, including planting improved species, fertilization, thinning, insect and fire control, and so forth, were authorized and funded. If this were done, the allowable harvest could be, it is estimated, increased by 50 percent.

The planned harvest from Federal lands in 1972 was 11.5 billion board feet; thus, with the 50 percent in harvest, an additional 5.7 billion board feet, log measure, could be obtained. As authorized today, the lumber so produced from this could go far toward solving our problem without damage to the principle of sustained yield, recreational values, or similar public benefits.

Our current and prospective lumber shortage crises are directly traceable to failure of the Federal Government to anticipate raw material needs and to take steps actually within its power to solve the problem before it arose. In spite of 61-percent increase in housing starts for 1971 through 1972, the Federal Government followed policies which ignored manifest facts that lumber demands were and would be skyrocketing. These inconsistent policies included, No. 1, continued heavy exports of logs and lumber with no intervention by the Commerce Department to protect the domestic economy. In 1971 to 1972 softwood log exports went from 1.9 billion board feet in log measure to 2.8 billion, and softwood lumber exports rose from 0.9 billion to 1.2 billion board feet. Some 90 percent of the log exports, as you know, went to Japan. Recently, the Japanese have been buying very, very heavily and promise to continue to do so.

No. 2. Half of the available softwood lumber is found on Federal lands. However, the planned sawtimber harvest, as well as the announced actually sold, has steadily declined since 1970. This decline in supply and the fast increase in demand has been caused, in part by the lack of funds and personnel provided to the U.S. Forest Service, and, yet, for every dollar invested the Government receives 4 from timber sales.

No. 3. Looking at the proposed fiscal year 1974 budget, we are amazed to find that the Forest budget is cut some \$105 million below

fiscal year 1973, which in turn, will cause reduced personnel and a further reduction in allowable timber harvest.

No. 4. In mid-1971 economic controls were applied to the economy. These controls worked in a counterproductive manner in a demand pull, inflationary situation in lumber. Increased supply was, and is, the only way to solve this problem.

The lumber market still suffers from the effects of phase 2, and even though the profit-margin rule retained by phase 2 has been very much liberalized, this provision is still a restraint to lumber production. In the meantime, as demand rose and exports drained away domestic logs and lumber, the United States stepped up its imports of softwood lumber from Canada. These imports rose from 5.8 billion feet in 1970 to 7.2 billion in 1971, and to 9.1 billion in 1972. Not subject to price control until the first sale, the Canadian lumber imports created a two-tier price structure for identical products and was a very disruptive marketing and pricing situation. Twenty-two percent of the current domestic use is now supplied by Canada, and that is up from 14 to 16 percent of a few years ago.

The recent second devaluation of the dollar may encourage further foreign purchases of U.S. logs and lumber if no action is taken to counteract this drain on American resources.

It is apparent from these comments that the following agencies and branches of Government, by action or inaction, determine U.S. lumber supplies: HUD, Commerce, Department of Agriculture through the Forest Service, Department of the Interior, the Cost of Living Council, White House, and, of course, the Congress. It is essential, in our judgment, that improved coordination of the policies and actions of all of these Federal Government entities be achieved. Our association has developed a position paper on this issue, entitled: NLBMDA Brief on the "Lumber Supply Crisis," as a supplement to our testimony. I submit that document for inclusion in the record. (The document referred to follows Mr. Mullin's prepared statement.)

In summary, we recommend the following:

First, the Department of Commerce should be required to impose restrictions on logs and lumber exports to protect the domestic economy.

Second, Congress should extend the so-called Morse amendment to the Foreign Assistance Act of 1968 but amend it or have other appropriate legislation to (1) ban the exports of any Federal timber until domestic needs are met, and (2) prohibit an exporter of logs from either private or public lands from bidding on Federal stumpage for 3 years from its last export sale.

Congress should provide an adequate Forest Service budget, preferably more and certainly not less than fiscal year 1973. Particular attention should be given to those Forest Service budget sectors affecting harvesting, reforestation, improved forest management, salvage, access roads, and assistance to State and private landowners to improve their forest management.

An increase in allowable harvest from the Federal lands should be immediately authorized by the Forest Service, and this action should coincide with the recommended upward adjustment in the Forest Service budget.

The increased allocation of timber that can be rapidly prepared for sale should be authorized.

Beyond this, mills now having Federal timber inventories of approximately 25 billion board feet could be assured of an inventory replacement from Federal lands, and they would be encouraged to produce more lumber to meet immediate market needs. At the present time, mill operators looking at the declining Federal timber harvest figures, understandably, are reluctant to invade their stumpage inventory reserves.

Congress should seek ways to increase timber supplies rather than encourage or permit rigid counterproductive economic controls which will only serve to further constrict lumber production.

Currently, the reappearance of chronic freight car shortage problems has disrupted the west-east shipments to many areas, creating shortages and high prices. Congress should seek ways to increase freight car production as well as to better implement ICC regulations to improve the traffic flow of existing cars.

We cannot emphasize too strongly the need for immediate, positive action of the types we have described. The lumber crisis will not fade away with time. The need for wood products is growing and, yet, the means for meeting that need are being restricted by some governmental inaction.

Thank you, gentlemen, for this opportunity to discuss this matter of the lumber crisis and its relation to exports.

Mr. ASHLEY. Thank you, Mr. Mullin. I am happy to advise you that your amended prepared statement has caught up with the committee, and I am glad that it has because it is a first-rate statement, absolutely so.

[The prepared statement with attachments and the document referred to by Mr. Mullin follow:]

PREPARED STATEMENT OF TERRY MULLIN, PRESIDENT OF THE NATIONAL LUMBER AND BUILDING MATERIAL DEALERS ASSOCIATION

My name is Terry Mullin, President of Terry Building Centers; we are engaged in the retail lumber and building supply business in Southern California and Arizona. For the year 1973, I am serving as President of the National Lumber and Building Material Dealers Association, headquartered here in Washington, D.C.

Our association is composed of 30 regional, State and metropolitan area Federated retail lumber and building supply associations with a total membership in excess of 12,000 companies, many of which have multiple yard outlets. This association is the sole spokesman for our industry on matters of National scope and interest.

As retail lumber dealers our members are the final link in the distribution chain from forests to the consumer. We buy lumber from wholesalers and also directly from mills. We sell to home builders, commercial and industrial firms and to the public at large. We warehouse large inventories at all times and we extend credit to our customers. Typically, we also handle a wide variety of non-lumber building products and equipment. Some of our members engage directly or indirectly in new home building; many are heavily involved in remodeling and repair.

We welcome this opportunity to testify on the current lumber and plywood shortage and particularly with respect to the effect of exports on domestic timber supply. We recognize, as we are sure this sub-committee does, that exports are only one facet of the complex lumber supply problem. For this reason and in order to place the effect of exports in proper perspective, we will also discuss briefly other aspects of the lumber product shortage problem.

Because our business is dependent on an adequate supply of lumber products, we are keenly aware of diversions or restrictions occurring in any of the supply, production or distribution levels before the product reaches our hands. Likewise,

we are very sensitive to the problems encountered by our customers, whether these be a shortage of mortgage money, the high price of land or their need for a prompt and assured flow of building materials at determinable prices. For example, we know that builders must have materials delivered at specific times as construction progresses and at known prices so they can accurately estimate costs and quote end-product prices to their customers or clients.

At the present time in many areas, certain lumber and wood items cannot be obtained at any price—yet the demand for lumber increases almost daily. Inventories are dangerously low from mills to final distributors. The building industry is in a turmoil of uncertainty because there is no assurance when, at what price or even whether lumber products can be delivered for home construction, commercial and industrial use.

With our Nation having had two years back-to-back of record-high housing starts (up 61% from 1970 to 1972) and with housing in 1973 continuing the record pace and further with commercial and industrial construction rising in volume, the prospect of early relief from the shortage problem is very dim unless firm and positive action is taken.

Long-term projections of high lumber product requirements clearly demonstrate why we say the U.S. is faced with a long-term as well as an immediate lumber supply crisis. According to a study by the U.S. Forest Service\* demands for timber-based products will increase from 13 billion cubic feet in 1970 to 22.6 billion cubic feet in the year 2000.

We have the needed timber—758 million acres of forest land or about three-fourths of the amount estimated to have been here when Columbus landed 480 years ago. Incidentally, the 758 million acres are 13 million acres *more* than we had a generation ago. In the last 15 years, we harvested 197 billion cubic feet of timber but we grew 246 billion cubic feet of new wood—a net gain of 49 billion cubic feet.

One reason we have a shortage of lumber is because we do not use our timber resources intelligently. Where timber land is intensively managed, as in the case of industrially-owned timber, an average of about 52 cubic feet of new growth per acre per year is attained; new growth on public lands is only about half that, or 27 cubic feet per acre per year. Growth on privately-owned timber land not managed for timber production is much less than either the industrial or public lands.

So far, we have set aside in parks, wilderness areas, etc., some 246 million acres of timber land; some people are urging that more be set aside in such preserves where no cutting of mature trees would be permitted. Yet when mature, such trees will die and decay serving no useful purpose.

Public land timber growth and consequent allowable harvest could be substantially increased if modern forest management including planting improved species, fertilization, thinning, insect and fire control, etc., were authorized and funded. If this were done, the allowable harvest could, it is estimated, be increased by 50%.

The planned harvest from Federal lands in 1972 was 11.5 billion board feet; thus with a 50% increase in harvest an additional 5.8 billion board feet (log measure) could be obtained. Were this authorized today, the lumber so produced from this one source would go far toward solving our problem without damage to the principles of sustained yield, recreational values and similar public benefits.

Our current and prospective lumber shortage crisis is directly traceable to failure of the Federal Government to anticipate raw material needs and to take steps fully within its power to solve the problem before it arose.

In spite of the 61% increase in housing starts from 1970 through 1972, the Federal Government followed policies which ignored the manifest fact that lumber demands were and would be skyrocketing. Those inconsistent policies included:

1. Continued heavy exports of logs and lumber with no intervention by the Commerce Department to protect the domestic economy. From 1971 to 1972, for example, softwood log exports went from 1.9 billion board feet (log measure) to 2.8 billion; and softwood lumber exports rose from 0.9 billion to 1.2 billion board feet. Some 90% of the log exports went to Japan. Recently the Japanese have been buying very heavily and promise to continue to do so.

\**The Outlook for Timber in the U.S.*, December 5, 1972, p. 3.



2. Half of the available softwood timber is found on Federal lands. However, the planned saw-timber harvest as well as the amount actually sold has steadily declined since 1970.

	Millions of board feet		Percent
	Planned	Actual sale	
1970.....	12, 754	12, 331	97
1971.....	11, 510	9, 673	85
1972.....	10, 470	9, 295	89
1973 (estimated).....	9, 600	8, 800	92

Thus in absolute terms we will be obtaining nearly 4 billion board feet less in 1973 than was planned to be sold in 1970 (when these log measure figures are converted to lumber tally, the 4 billion becomes about 5½ billion board feet of lumber.)

This decline in supply in the face of increased demand has been caused in part by the lack of funds and personnel provided to the U.S. Forest Service. Yet for every \$1.00 invested, the Government receives \$4.00 from timber sales. (See attachments A & B)

3. Looking at the proposed Fiscal Year 1974 budget, we are amazed to find: (a) the Forest budget cut some \$105 million below F.Y. 1973, which will cause reduced personnel and a further reduction in allowable timber harvest.

4. In mid-1971 economic controls were applied to the economy. However, the net profit margin limitation rule of the two best of the last three years meant lumber producers were restricted to choosing two of three extremely low profit years. When this low profit margin point was reached, incentive to produce needed lumber was removed. Thus, these controls worked in a counter-productive manner in a demand-pull inflationary situation. Increased supply was and is the only way to solve the problem. The lumber market still suffers from the effects of Phase II; even though the profit margin rule as retained by Phase III has been liberalized. This provision is still a restraint for lumber production.

In the meantime as demand rose, supply shrank and exports drained away domestic logs and lumber, the U.S. stepped up its imports of softwood lumber from Canada. These imports rose from 5.8 billion board feet in 1970, to 7.2 billion in 1971 to 9.1 billion in 1972. Not subject to price controls until after the first sale, Canadian lumber imports created a two-tier price structure for identical products—a very disruptive marketing and pricing situation.

The 3½ billion board feet annual increase in imports is one measure of U.S. lumber deficit. 25% of current domestic use is now supplied by Canada, up from 14 to 16% a few years ago.

The recent second devaluation of the dollar may encourage further foreign purchase of U.S. logs and lumber if no action is taken to counteract this drain on domestic resources.

It is apparent from these comments that the following agencies and branches of government by action or inaction determine U.S. lumber supply: HUD, Commerce, Agriculture (Forest Service), Interior, Cost of Living Council, White House and, of course, the Congress. It is essential in our judgment that improved coordination of the policies and actions of all these Federal Government entities be achieved. As of the moment it would appear the Government right hand does not know or care what the Government left hand does or does not do.

Our Association has developed a position paper on this issue entitled "NLBMDA Brief on the Lumber Supply Crisis." As a supplement to our testimony, I submit that document for inclusion in the record.

In summary, we recommend the following:

1. The Department of Commerce should be required to impose restrictions on logs and lumber exports to protect the domestic economy.

2. Congress should extend the so-called Morse Amendment to the Foreign Assistance Act of 1968 but amend it or other appropriate legislation to:

(a) ban the export of any Federal timber until domestic needs are met.

(b) prohibit an exporter of logs from either private or public lands from bidding on Federal stumpage for 3 years from its last export sale.

3. Congress should provide an adequate Forest Service budget, preferably more and certainly not less than F.Y. 1973; particular attention should be given to those Forest Service budget sectors affecting harvesting, reforestation, improved forest management, salvage, access roads and assistance to state and private land owners to improve their forest management.

4. An increase in the allowable harvest from Federal lands should be immediately authorized by the Forest Service. This action should coincide with the recommended upward adjustment in the Forest Service budget so the increased allocation of timber can be rapidly prepared for sale. Beyond this, if mills now holding Federal timber inventories of approximately 25 billion board feet could be assured of inventory replacement from Federal lands, they would be encouraged to produce more lumber to meet immediate market needs. At the present time mill operators looking at the declining Federal timber harvest figures understandably are reluctant to invade their stumpage inventory reserves.

5. Congress should seek ways to increase timber supply rather than to encourage or to permit rigid, counter-productive economic controls which will only serve to further constrict lumber production.

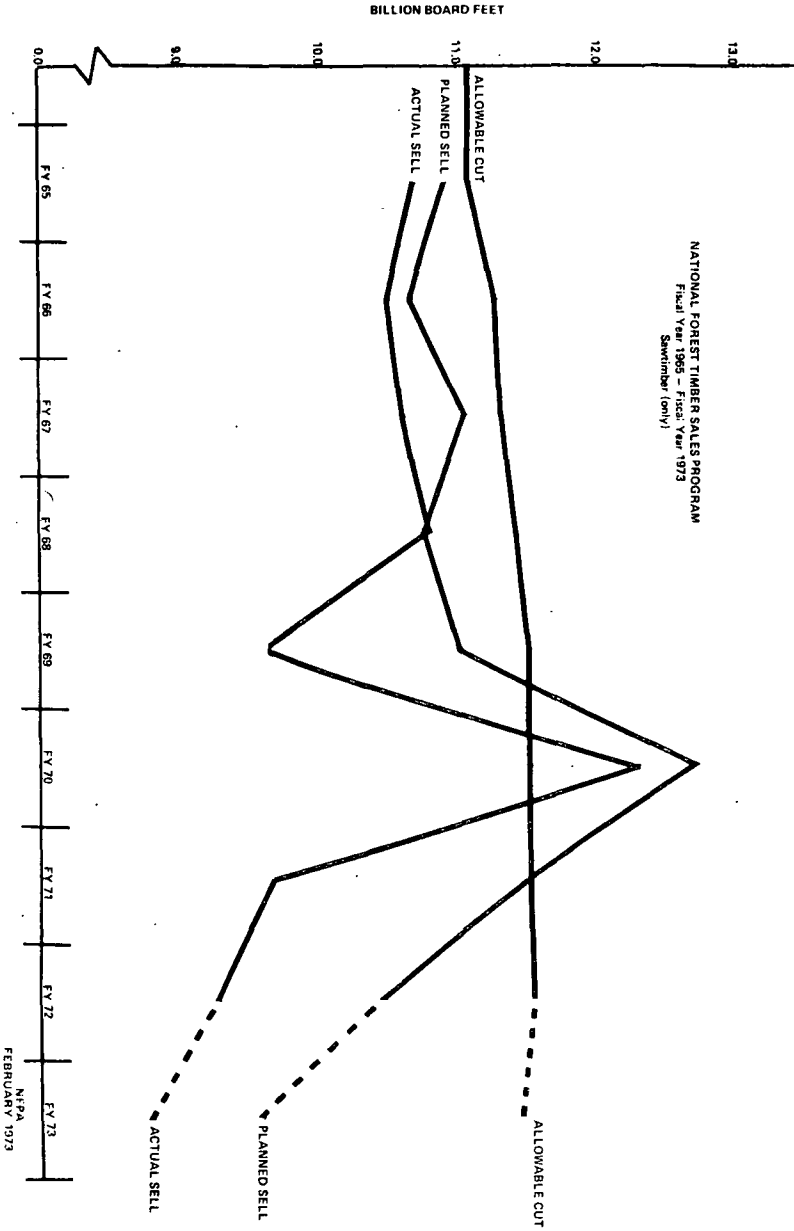
6. Currently the reappearance of the chronic freight car shortage problem is disrupting west-to-east lumber shipments to many areas, creating shortages and high prices. Congress should seek ways to increase freight car production as well as better to implement IOC regulations to improve the traffic flow of existing cars.

We cannot emphasize too strongly the need for *immediate positive actions* of the type we have described.

The lumber crisis will not fade away with time. The need for wood products is growing, yet the means for meeting that need are being restricted by governmental inaction.

Thank you for this opportunity to discuss the lumber crisis and its relation to exports.

ATTACHMENT A



## ATTACHMENT B

## NATIONAL FOREST TIMBER SALES AND CUTS, SAWTIMBER (ONLY), FISCAL YEARS 1965 THROUGH 1973

	Allowable cut as of Jan. 1	Volume of timber sold (millions of board feet) <sup>1</sup>			Volume of timber cut (millions of board feet) <sup>1</sup>		
		Planned	Actual	Percent accom- plishment	Planned	Actual	Percent accom- plishment
Fiscal year:							
1965	11,094	10,934	10,695	98	10,722	10,563	98
1966	11,292	10,683	10,518	98	11,002	11,374	103
1967	11,331	11,087	10,626	96	11,096	10,002	90
1968	11,429	10,773	10,818	100	11,718	11,316	97
1969	11,532	11,031	<sup>a</sup> 9,152	83	11,926	10,918	92
1970	11,545	12,754	12,331	97	12,705	10,534	83
1971	11,544	11,510	9,673	85	12,787	9,373	73
1972	11,568	10,470	9,295	89	13,125	10,693	81
1973	( <sup>c</sup> )	<sup>a</sup> 9,600	<sup>a</sup> 8,800	<sup>a</sup> 92	<sup>a</sup> 12,800	<sup>a</sup> 10,700	<sup>a</sup> 84

Source: Forest Service timber sale accomplishment reports fiscal years 1965 through 1970. Direct inquiries to Forest Service for fiscal years 1971 and 1972. Fiscal year 1973 performance is estimated.

<sup>1</sup> After deduction of 8,750,000,000 board feet of Juneau unit sale in Alaska.

<sup>a</sup> Local scale.

<sup>b</sup> Estimate.

<sup>c</sup> Not available.

## NLBMDA BRIEF ON THE "LUMBER SUPPLY CRISIS"

## THE PROBLEM

... Critical shortages of Soft Wood Lumber and Plywood  
 ... How to Increase Supply To Meet Demand And To Reduce Rising Construction Costs

*Causes*

(a) Conflicting Federal policies presently restricting the supply of raw materials.

(b) Federal policies allowing an increasing volume of log and lumber exports in spite of the growing domestic wood product shortages (exports up 40% from 1971 to 1972).

(c) All time high volume of U.S. housing starts required to meet the demand for two successive years now extending into the third year, plus growing lumber demands from other countries (U.S. housing volume up 61% from 1970 to 1972).

(d) Federal economic control policies which have hampered normal production and distribution of lumber and plywood.

(e) A growing shortage of freight cars further restricts lumber product availability in many areas.

*The effect on construction and consumers*

(a) Because of shortages and resulting high prices, customers cannot be assured when, at what price, or even whether lumber products can be delivered for home construction, commercial and industrial use.

(b) In many areas, certain lumber and wood items cannot be obtained at any price ... yet the demand for lumber increases almost daily. Inventories are dangerously low from mills to final distributors.

(c) As a consequence, the building industry is in a turmoil of uncertainty as has been reported in the news media.

*Further*

(1) For Fiscal Year 1974, Forest Service budget proposals further will restrict raw material supplies.

(2) The timber sales offerings from Federal lands will be reduced.

(2) The Forest Service budget will be slashed by \$105 million.

(3) Forest Service personnel will be reduced.

(b) Exports of logs and lumber are increasing appreciably with no action being taken to halt or even to restrict this drain on public and private domestic timber resources.

(c) To offset the drain by these exports and to meet growing domestic demands, U.S. imports of lumber (primarily from Canada) increased by 57% from 1970

to 1972. (25% of lumber usage now comes from Canada compared to 14%-16% previously.) Imports totaled 9.1 billion board feet in 1972 compared to 7.2 billion in 1971.

(d) With half of the nation's available soft wood timber in Federal hands, the harvest permitted and achieved becomes vital to lumber supply.

*Examples:*

In 1971, of the 11.5 billion planned, only 9.7 billion board feet were sold.

In 1972, of the 10.5 billion planned, 9.3 billion board feet were sold.

In 1973, of the 9.6 billion planned, only 8.8 billion board feet are expected to be sold.

NOTE: In spite of the appreciable increase in housing starts in 1971 and 1972, the planned and actually sold timber harvest steadily declined. The harvest could be increased substantially if sound, accelerated forest management programs had been continued as recommended by a Department of Agriculture Task Force on Lumber in August 1969.

(e) The prime reasons the Forest Service has not even achieved the allowable timber sales are (1) lack of adequate funding and (2) reduction in personnel. In spite of the shortage due to an inadequate supply of raw material, as noted, the fiscal 1974 budget proposes further to reduce the 1973 Forest Service budget by \$105 million.

ACTION NEEDED

*I. Export situation*

(A) In view of the recent increase in log exports, the Department of Commerce, under the Export Control Act, should be required to limit log exports as necessary to protect the domestic economy and construction needs. (In 1972, log exports were 2.8 billion feet compared to 1.9 billion in 1971.)

(B) Congress should consider the extension of the existing Morse Amendment to the Foreign Assistance Act of 1968 which expires in December 1973. The Morse Amendment restricts exports from Federal lands to 350 million board feet of timber per year.) In addition Congress should:

(1) disallow the export of *any Federal timber* in the form of round logs until our domestic needs are met.

(2) enact a strong and enforceable anti-substitution provision which would make any party selling logs for export from either State or private sources, ineligible to purchase Federal timber for a period of 3 years from the last sale for export, except timber twice rejected at appraised value by at least two domestic bidders.

ACTION NEEDED . . .

*II. Uncut Federal timber*

There are currently an estimated 24.9 billion board feet of contracted for and uncut Federal land timber inventory under control of the mills. Means must be found to accelerate the conversion of this purchased stumpage resource into needed lumber—and as soon as possible.

Necessary assurance to the mills of replacement of such inventories could be provided by an increase in the Federal timber harvest and its implementation by a Forest Service budget increase. Mills thus could be encouraged to produce more lumber immediately. Certainly, this strategy should be adopted before even considering the alternative of rigid, counter-productive price controls.

ACTION NEEDED . . .

*III. Forest Service programs*

(A) An immediate re-evaluation and upward adjustment of the Federal Forest Service budget for Fiscal Year 1974 and beyond is essential. Only through an increase in that budget can appropriate forest management programs be provided to offer the harvest of timber from our Federal lands to relieve the immediate crisis.

(B) For the years ahead, additional funds should be made available to allow full and effective forest management on an intensified basis. Particular consideration should be given to:

(1) *Reforestation* of certain Federal forest lands. (It is estimated that there are currently 5 million acres of Federal lands on which timber should be replanted to meet the needs of the future.)

(2) *Salvaging* to the extent possible the dead and dying timber. (More timber is lost annually to diseases and pests than is harvested on federal lands.)

(3) *Accelerate access road construction* to reduce costs of maintenance and hauling, as well as provide proper conservation of the lands and timber involved.

(4) *Maximize the multiple use of timber*—our major renewable natural resource.

(5) *Provide assistance* to State and private land owners largely through State Forestry agencies for forest management planning and development, harvesting and processing of forest products and for necessary research.

(6) Consideration also should be given to:

a. Projecting the Forest Service budget over a 5-year period to allow advance planning and programming. Reforestation and related activities are continued processes and monies for doing the job should be allocated well in advance.

b. Implementing the recommendations of the 1969 report of the Forest Service to the Cabinet Task Force on Lumber (now reactivated). The report outlines future lumber and wood product needs, future supply requirements, and the substantial revenues from timber sales that could be provided to the U.S. Government (nearly \$400 million in 1972).

#### ACTION NEEDED . . .

#### IV. Economic Controls

(A) Rigid economic controls of lumber products have proved to be counter-productive due to the impact of the net profit margin test on all sectors of the industry. Net profit limitations have, in effect, imposed ceilings on lumber production. Congress is urged to give careful consideration to the need of maintaining and increasing lumber production, not limiting it through rigid net profit control mechanisms.

#### ACTION NEEDED . . .

#### V. Freight Car Shortages

(A) Today, as in the past, and unquestionably in the future, *chronic freight car shortages* disrupt west-to-east lumber and wood product shipments. We recommend that Congress and the Interstate Commerce Commission take immediate steps to seek ways by which our Nation can increase freight car production to meet the demands of the future, and that ICC regulations be stiffened to improve the traffic flow of cars to and from timber producing areas.

#### CONCLUSION

Substitute materials for wood are all drawn from non-renewable resources. On the other hand, wood fiber constantly renews itself much like an agricultural crop but on a longer life cycle.

In this era of serious energy shortages, it is significant that wood substitutes require many times as much energy to manufacture as do wood products. Broad scale conversion to substitutes would disrupt, be costly, would pollute, and further deplete irreplaceable natural resources.

We support many of the efforts by the ecologists to improve and preserve our environment. However, the present demand for lumber will increase in the decade ahead. (The President's Council of Economic Advisors estimates 2.2 million housing units will be built in 1973 . . . very close to the last two record-high years.) Therefore, those efforts which would immobilize vast tracks of timber in museum-like isolation with no aesthetic or other use permitted, are clearly contrary to the public interest. Modern forest management including planting improved species, fertilization, thinning, insect and fire control, etc., if authorized and funded, would stimulate marked additional fiber growth, preserve game cover and food, and permit recreational use by the public as well as the harvesting of mature trees otherwise destined for death and decay. As a Nation we could, while serving ecological and recreational objectives, also provide needed lumber for residential and commercial use by our expanding population.

The recurring lumber supply crises will not fade away. Essential to the public interest are decisive, long-term Government policies and programs dedicated to the principle of more intensive multiple use of our forest resources.

The time for action is now!

Mr. ASHLEY. Mr. Bingham, we will be glad to hear from you.

**STATEMENT OF CHARLES W. BINGHAM, SENIOR VICE PRESIDENT,  
WEYERHAEUSER CO., TACOMA, WASH.**

Mr. BINGHAM. Thank you, Mr. Chairman. I am Charles W. Bingham, senior vice president, responsible for land and timber management for the Weyerhaeuser Co., and I have in front of me three statements. The first I am going to try to capsule for you, and there is a more detailed statement which is presented separately.

Mr. ASHLEY. Without objection, your full statement will be included in the record, as will, of course, the addendum to your remarks. All of that will appear in the record.

Mr. BINGHAM. Thank you very much.

Mr. BINGHAM. My company is the Nation's largest producer of softwood lumber, even though we only have about 6 percent of the market. It is the third largest producer of softwood plywood. We are also a major factor in the homebuilding industry and are engaged in trade with Japan in a number of products, including logs and wood chips.

Mr. Chairman, may I commend you for the approach taken in your proposed legislation, setting up a technical advisory committee to deal with the important issues addressed by that legislation. The question of raw material supply to the lumber industry is an important one and, I believe, is too complicated to be tried in the press. As a matter of fact, after several weeks of some personal involvement attempting to get an understanding of this important issue, I can assure you we need all the help we can get.

I can agree with the other witnesses that testified that we are here because of the currently high lumber and plywood prices. I cannot agree that the export of logs from the Pacific Northwest is the cause of these high prices, any more than the export of logs was the cause of the rockbottom prices received in mid-1970.

We need to understand that lumber and plywood is manufactured from logs produced in every one of our four major lumber producing regions: the west coast, the intermountain area, the South, and New England.

Transportation costs make it impossible to move logs across these region boundaries. Thus, a surplus of logs in the Pacific Northwest cannot be used to fill a need for logs in the intermountain area, or the South. Domestic lumber production must come from logs grown relatively near the manufacturer. Currently, we find that in the intermountain region there appears to be a slight shortage of logs while in the Pacific Northwest there are enough logs to keep local sawmills operating at capacity and to supply that area's export market.

The overwhelming majority of export logs originate from the west coast region. In fact, 82 percent come from my home State of Washington. Washington's lumber mills are currently operating at capacity and have done so throughout this current housing boom. Lumber output in Washington State, in fact, increased more from the low point of the housing market of 1970 to the high point of 1972 than did the national output of lumber.

Southern lumber production is generally good, although a severe winter has caused sporadic log shortages.

There are some mills in Montana, Idaho, and California that could add overtime or more than normal shifts to produce more lumber if more national forest timber were put on the market quickly. These mills are not, however, affected by the export of logs. There is no correlation between logs exported and lumber and plywood prices. In fact, the saw log and stumpage prices in the southern region increased as sharply in 1972 as did Douglas-fir stumpage prices in the west coast region. No logs are exported from the South. Thus, while additional logs in front of some mills would improve the supply of lumber, log shortages are not the cause of the current lumber price situation and certainly the export of logs is not the culprit. What, then, is the problem?

The lumber industry is a cyclical industry which is at the mercy of the demand for housing starts.

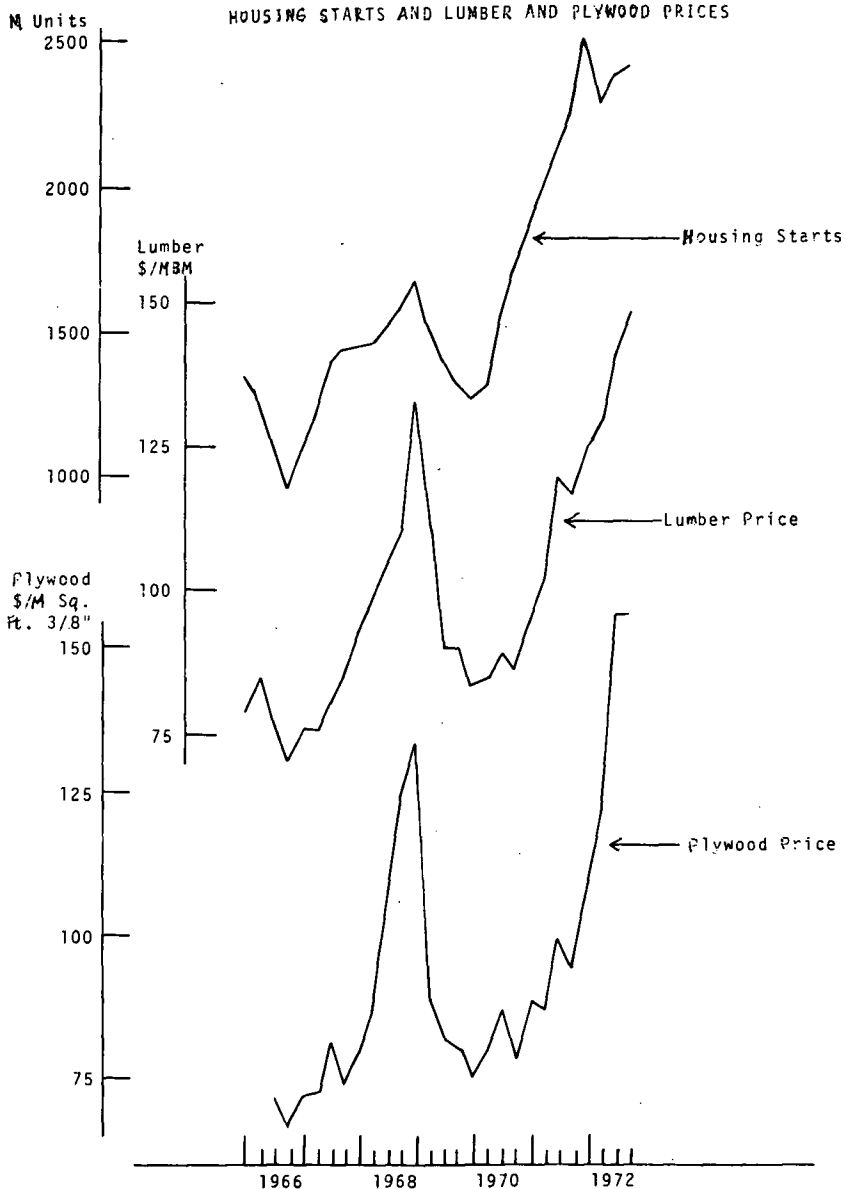
Lumber is a commodity product, as has been pointed out, produced and sold by tens of thousands of mills, wholesalers, distributors, and retailers. Because of its nature, there is no stockpiling, or long-term storage, of lumber. Also, because it takes a lot of money and a long time to build a sawmill, the lumber production capacity is very fairly inelastic.

U.S. housing starts doubled in less than 2 years between the valley of 1970 and the peak of 1972. This doubling of homebuilding activity caused a 30-percent increase in the demand for lumber. Since it is not possible to stockpile either raw material or finished product in the lumber industry and since there is no additional productive capacity available, the prices in the lumber industry have responded as do the prices of every true commodity when there are tremendous increases in demand—there have been extremely sharp price rises.

I have included a chart in this statement, Mr. Chairman, that indicates the correlation between housing starts and their increases and decreases through time and the sharp increases and decreases, in the commodity prices. It goes back to 1965 and takes you through 1972, and you will see that prices rose very sharply when we were here in 1968 and 1969, and then exactly when the housing market started down the prices went down. Now they are back up because housing starts are back up.

[The chart referred to follows:]





Thus, we invariably find that whenever we experience sharp rises in the price of lumber, these price rises are caused by the sharp increase in housing starts. Since it is our national policy to improve the quantity and quality of housing, we naturally must continue to encourage increased housing starts. Since we should not, however, be content to continue going through periods of skyrocketing lumber prices, it is absolutely imperative that all of us work toward long-range measures which will help us avoid the repetition of periods of sharp lumber

prices increases such as we are experiencing today or deep troughs as we experienced 2 years ago.

The committee has appropriately asked: "What can we do?"

Mr. Chairman, we believe that there are steps which can be taken to help solve this problem in both the short and the long term.

In the short term—today—about all that can be done is—and we set out in great detail in the appendices—to immediately announce the sale of timber in those areas where there are shortages in timber which must come out of the national forests and put it in front of specific mills that need logs. This will immediately bring more lumber in the market.

While considering the long term, we should remember that the lumber manufacturing industry as we know it today is highly capital intensive. Today, a typical lumber mill requires \$6 million to \$10 million in capital and 2 years to build. In order to attract that sort of commitment in the quantities we need, we must be able to assure that, in the long term, the new facilities will have a relatively consistent demand for their product.

Bearing all of these factors in mind, we suggest the following steps:

1. The monetary policy of the country should be used to encourage and smooth out the flow of mortgage money into housing. We have too long used the control over the flow of funds—now over \$40 billion per year—to the mortgage market to speed up or slow down the general economy. The Nation's monetary policy should stop using the home buyer as a whipping boy and start attempting to help achieve our national housing objectives on a consistent year-after-year basis.

2. The effect of using our monetary policies in this positive manner will be to smooth out at a higher level the demand for housing starts in any one year. This smoothing out of demands will attract the necessary additional investment to increase our lumber production capacity. This will go a long way toward providing the required continuity in lumber prices.

3. We should encourage a continuation and acceleration of the efforts to increase the Nation's raw material base. This is presently being done through technological advances which permit the conversion into lumber of smaller logs which traditionally are ground up into chips to supply the paper industry. The chips would then be supplied by materials which are now a total waste. This trend will maximize the total product yield from any given harvested acreage; it will increase the total forest resources of the country; and it will bring lumber production facilities closer to the regional using markets.

4. We should encourage the development of export markets for lumber as well as logs. This will assure manufacturing facilities of a more stable market for their products during periods in which the domestic lumber demand is low and will assure our domestic users of an adequate lumber supply during higher demand periods.

5. The national forests are, as has been pointed out, the predominant source of softwood logs for the lumber market. In order to protect against mill closures on the down cycle—and note I assume that we will have some cycles in this commodity business even with the best effort of the Federal Government to smooth the flow of funds—we should make the following changes in the timber sales practices from the national forests:

1. Volume markets should increase or decrease with the forecasted swing in lumber and plywood demand.

2. Average sales size should be increased to provide greater assurance of supply to mills in place.

3. Average term of sales should be extended to provide the buyer with flexibility as to time of timber removal.

4. All sales should be on a product index basis so that decreases in product prices will not force marginal producers to close their mills in times of market falldown.

5. Sales should be on an acreage or lump-sum basis to encourage greater utilization of the forest resource.

And, Mr. Chairman, I make these recommendations representing a company that does not buy Federal stumpage in any quantity.

6. In order to insure a gradually increasing long-term supply from the national forests, we must increase the intensity of reforestation on these lands. Consistent funding of this effort is a major public need. Such an investment would not only improve the wood yield from our forests, it will also provide watershed and wildlife protection, and recreational and esthetic benefits to the public, the country.

7. Additionally, it seems quite clear that a technical committee such as that recommended by the chairman would be helpful in overseeing the situation.

May I reiterate the fact that log exports from the western region have increased employment levels during the down cycles in the domestic industry, have helped to bring more total product to market, and have greatly improved the utilization per acre harvested. This trade has been an important part of our balance of payments and has added importantly to the port revenues and school trust income in the State of Washington.

Mr. Chairman, I have tried to develop these points in greater detail in the written material, and I can summarize them again by saying that we do not believe the export of logs from the Pacific Northwest has hurt the lumber-supply situation in the West.

Thank you, Mr. Chairman.

[Mr. Bingham's prepared statement with an appended document on the status of U.S. lumber and plywood production follows:]

PREPARED STATEMENT OF C. W. BINGHAM, SENIOR VICE PRESIDENT, WEYERHAEUSER CO., TACOMA, WASH.

I am Charles W. Bingham, Senior Vice President, responsible for land and timber management for the Weyerhaeuser Company. I live at 502 N. D Street, Tacoma, Washington.

My company is the Nation's largest producer of softwood lumber, and third largest producer of softwood plywood. We are also a major factor in the home-building industry and are engaged in trade with Japan in a number of products, including logs.

I am pleased to be able to appear before this Committee today. I would like to make a few summary points and ask that my complete testimony be included as part of the record.

1. Log costs do not push lumber and plywood prices. Rather, the doubling of home building activity in two years has dramatically increased the demand for softwood lumber and plywood which are true commodity products, and the demand pull—against limited production capacity—has caused very high lumber and plywood prices.

2. Logs are produced and used regionally and surplus logs in one region are not economically available to other regions.

3. Our forests are renewable and markets increase the utilization per acre and attract reinvestment to improve tree growth in the next crop.

4. Export log and chip markets have dramatically increased, not reduced, the total wood available in the states of Oregon and Washington. These markets have increased forest utilization and the rate of capital reinvestment, with the result that fewer acres harvested are producing more usable wood fiber.

5. Our trade posture with Japan and Canada has been greatly improved as a result of exporting logs and importing lumber.

As we understand it, the Export Control Act is intended to alleviate supply shortages within the United States and is particularly aimed at conserving critical resources which are in short supply.

Our domestic forest resources do not fit this concern. Not only are we growing more wood than we are currently harvesting in this country, but it is a uniquely renewable resource. We have the capability of growing substantially more than our current levels. In addition, nationally, we are currently wasting or misusing a major portion of what we are harvesting.

Because of this underutilization—this waste—increasing the availability of markets increases the effective supply of wood, rather than decreasing it. This is true both in the short term and the long term.

#### SHORT-TERM ISSUES

Since we are responding here to a short-term issue, let's look at the short term first.

##### *a. Definitions*

Before we do, we should attempt to get rid of some of the semantic confusion which surrounds this issue. "Forests," "timber," "stumpage," "logs," "lumber" and "wood products" all have been mentioned in the public media. Unfortunately, these terms have at times been used interchangeably. They are not synonymous.

A forest is a tract of land, covered with trees. Forests can be commercial, recreational, a combination of these, or can be devoted to other uses.

Timber refers to the trees standing upon a tract of land.

Stumpage refers to the cost of commercial timber offered for sale, and is calculated upon the marketable wood volume in the timber as it stands on the forest land and usually includes something less than all of the cubic content of material in each tree.

Logs are the trees after they have been harvested, usually sawn into specified lengths. They are, in effect, sections of tree stems. They are bulky, irregular in shape, heavy in comparison to the comparable units of finished products to be derived from them, and hence their overland transportability is limited.

Lumber is a key commodity building material, manufactured from certain portions of certain logs best adapted to that end use.

Plywood is also manufactured from logs which are rotary peeled, rather than sawn, and it is glued together in panel, rather than board, form. The rest of my testimony will deal with lumber as a product, even though the comments are essentially applicable to plywood as well.

Wood products refers to all manufactured products made by the industry including, among other products, several qualities of lumber, plywood, pressed board, piling, mouldings, and wood chips.

##### *b. Lumber prices*

The immediate concern, with lumber as with beef, is the high prices paid by the consumer for the product. Lumber prices began to rise during the latter part of 1971, and continued to rise during all of 1972. Current prices are at historic high levels.

In the search for an easy answer to these sharp increases in lumber prices, because we are exporting some logs, it is a simple answer to suggest that we curtail log exports.

However, let's examine the structure of the lumber industry, and find out what does move lumber prices.

Lumber is sold in commodity auction markets. As in any auction, when demand is high, the bidder has little if any interest in the seller's cost. The price he is willing to bid depends entirely upon his need for the product. In times of low demand, the seller's costs are a factor in determining the price floor. Approximately half of the total demand for lumber comes from the United States homebuilding industry.

Homebuilding starts in the United States averaged slightly less than 1.5 million annually throughout the 1960s, although there were sharp year-to-year swings. In mid-1970, housing starts had dropped to 1.2 million, as a result of federal government monetary policy, which restricted the availability of funds flowing to the mortgage market. By mid-year 1972, with a record availability of funds, they had doubled to an annual of 2.4 million, and have remained close to that peak for the past several months. Translated into demand for lumber, this has meant a 1970-to-1972 increase in demand for housing lumber of 67% accompanied by an increase in demand for other uses of 4%, or a total demand increase of 26%.

This increase in demand was met by an 18% increase in U.S. lumber production with Washington and Oregon together contributing an 18% increase. It was met also by a 2.9 billion board foot increase in Canadian imports. United States production capacity simply was not in place to meet this dramatic increase, thus, market demand, matched against a relatively inelastic supply, caused sharp price increases.

Even today, production capacity in the Pacific Northwest, not presently available raw material supply, is the real challenge facing the industry. Actually a strong raw material market for logs during the low periods of lumber demand helped maintain rather than reduce lumber production capacity.

In the relatively low demand years of 1960-68, 237 lumber mills in the Western states were forced out of business, a significant decline in the region's total production capacity. Canadian imports did not decrease. Without the log export market availability, this capacity decline would have similarly restricted logging employment and reforestation activity. But it did not.

Many of the mills adjusted their log mix to take the fall-down from the log export markets and held out for the upswing. Nearly all of them laid off some employees, and restricted production, but log exporting helped take up the slack. The table below shows employment in the Pacific Northwest forest products industry in the 1963-72 period. The relative stability of industry employment can be largely credited to the availability of the log export market.

[In thousands of employees]

	Washington			Oregon		
	Lumber and wood products	Pulp and paper	Total	Lumber and wood products	Pulp and paper	Total
1963.....	43.7	18.8	62.5	69.2	7.2	76.4
1964.....	46.7	19.2	65.9	73.2	7.2	80.4
1965.....	46.9	19.8	66.7	74.3	7.5	81.8
1966.....	46.6	20.2	66.8	73.0	8.1	81.1
1967.....	44.0	19.9	63.9	69.4	8.5	77.9
1968.....	45.9	19.9	65.8	72.3	8.8	81.1
1969.....	45.2	20.0	65.2	70.9	9.1	80.0
1970.....	42.2	19.8	62.0	66.8	9.4	76.2
1971.....	43.4	18.1	61.5	69.9	9.5	79.4
1972.....	46.2	18.7	64.9	73.5	19.8	183.3

<sup>1</sup> Estimate.

It is important at this point to highlight the geographic isolation of the State of Washington from our major domestic markets. Washington logs cannot be transported overland to those areas which indeed are log-short in this building boom. The cost to transport a log from the Washington coast to Osaka, Japan, is less than the cost of moving it only 460 miles inland within the United States!

The cost of moving a typical 32-foot, 24-inch diameter coastal hemlock log to Missoula, Montana would be \$66. Moving it to Minneapolis would cost \$115. If it were to be moved to Washington, D.C., the transportation cost overland would be \$137. It costs \$54 to ship it across the Pacific to Osaka.

Lumber volume which could be derived from the same log, however, could be transported by rail to Missoula for \$15, to Minneapolis for \$27, and to Washington, D.C., for \$32.

In addition, it must be noted that the Jones Act which requires that American products be shipped between American ports on American bottoms, gives a \$20 per thousand board foot transportation cost advantage to British Columbia lumber moving to the United States East Coast markets.

Manufacturing wood products move into these markets through multiple channels. The Cost of Living Council has estimated that there are more than 80,000 separate businesses involved in one aspect or another in production and sale of wood products. The lumber industry, in particular, is characterized in terms of volume by the more than 10,000 small producers in the United States, in addition to scores of Canadian producers, primarily in British Columbia.

Mills set lumber list prices weekly, moving upward or downward depending upon sales resistance or acceptance at the previous week's price levels. They may sell directly to builders, or to retailers, captive or independent wholesalers, or to lumber brokers. Even within a given week, sales will be negotiated upward or downward from list prices. And, the same process occurs at all stages in the distribution chain. It is a classical commodity auction market that operates much more comparably to the stock market than to more typical industrial markets.

And, like the stock market, it is subject to rather wild cyclical swings. Price swings are dictated almost entirely by the level of homebuilding starts in the United States. That is, prices are pulled by demand whenever supply begins to tighten, and they fall just as dramatically whenever demand loosens. Housing starts determine lumber price levels simply because we are in a demand-pull, not a cost-push, market. Chart 1 illustrates this: It shows the close correlation between domestic housing starts and the price of standard and better 2 x 4's and half-inch standard exterior, both of which are key price indicators of commodity lumber and plywood.

CHART 1

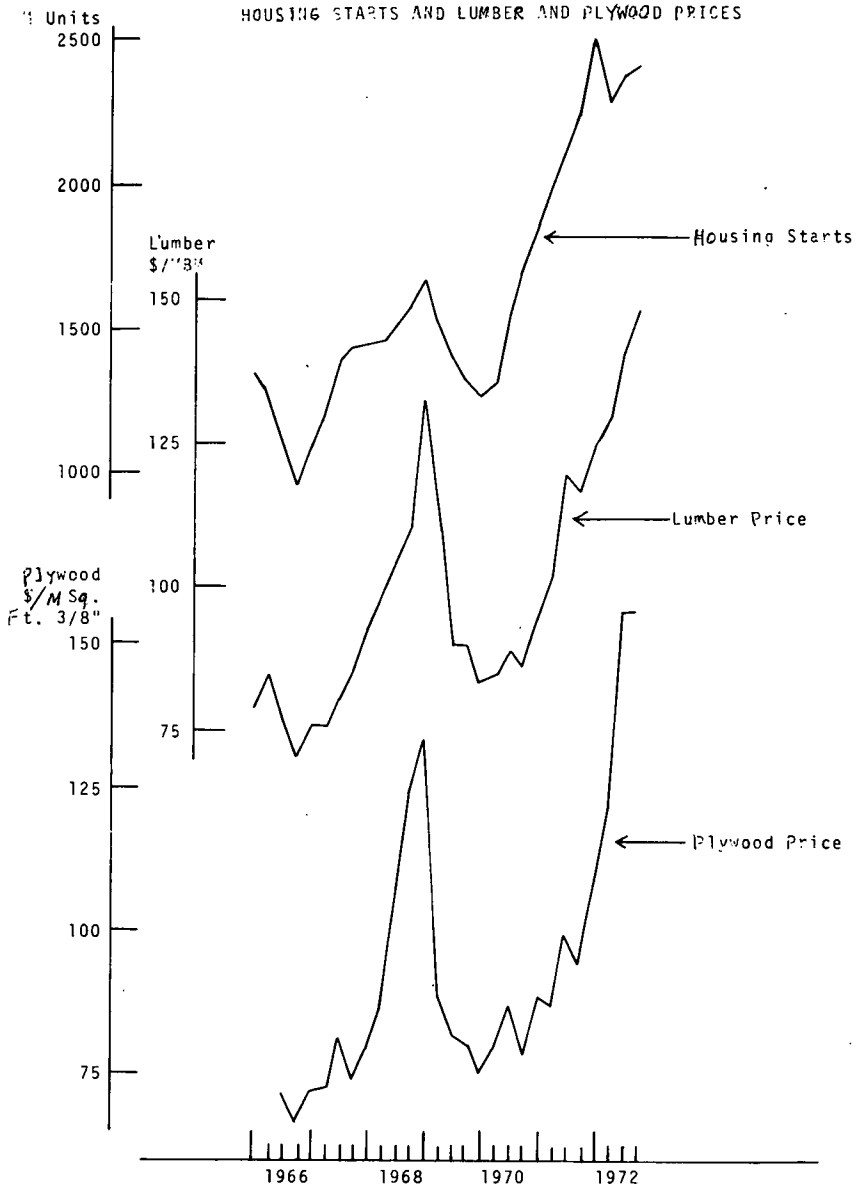
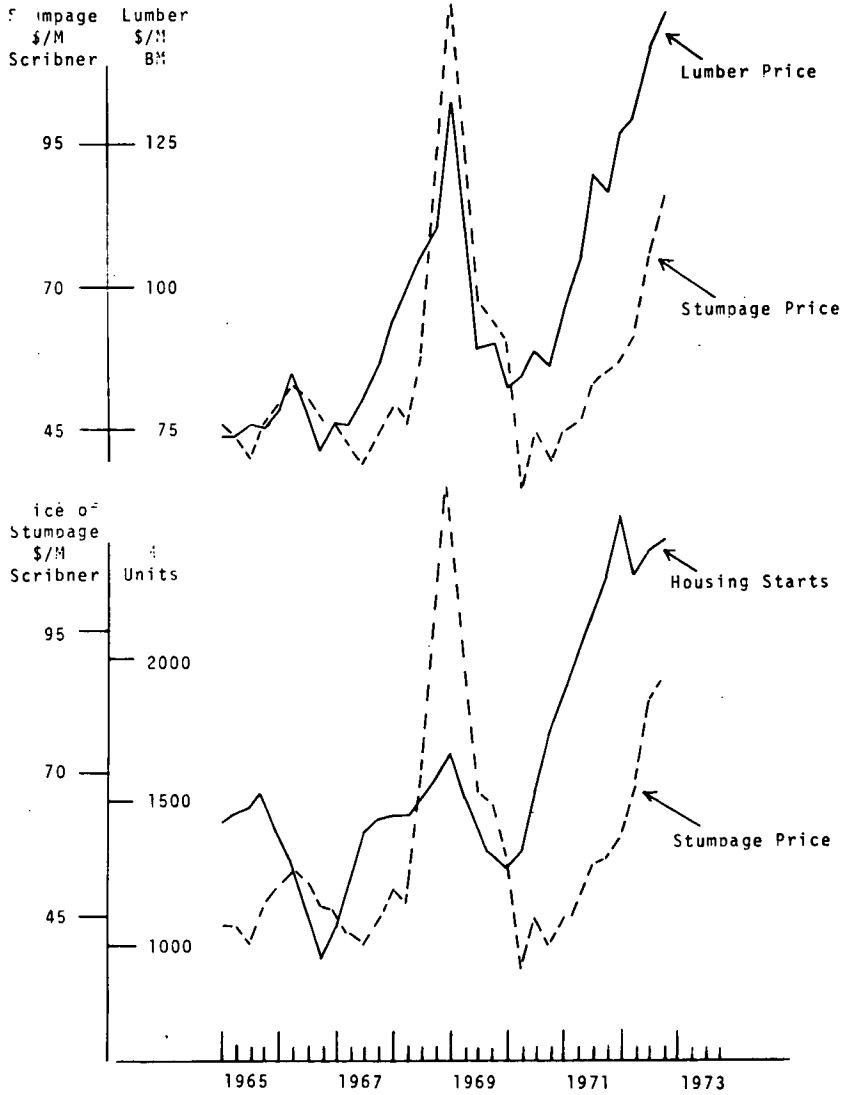


CHART 2

## HOUSING STARTS - STUMPAGE AND LUMBER PRICES





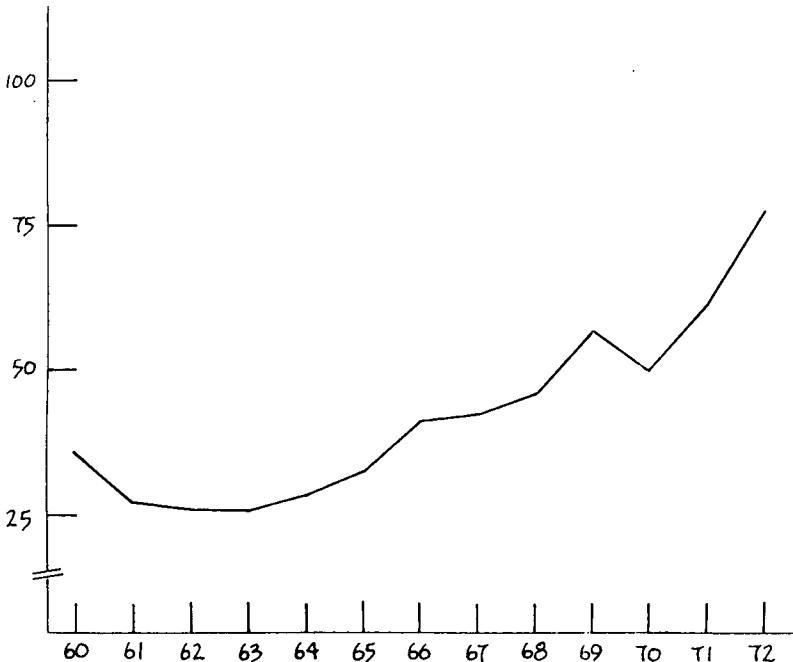
Building product price levels in turn pull log price levels, which, in turn, pull stumpage prices, with the lag from product prices to stumpage prices being about nine months—or a full 12 months after housing demand has increased or decreased. Chart 2 illustrates the pattern. As the chart also points out, Douglas fir stumpage prices in the Pacific Northwest at the end of 1972 were *lower* than they were in 1969; yet, lumber prices were higher, indicating a very strong lumber product market with adequate timber supply, and inadequate manufacturing capacity. And, also indicating the lag between product prices increases—pulled by demand—and raw material price increases.

Chart 3 shows stumpage price trends since 1967 in the South. During the current homebuilding boom, starting in 1972, the chart indicates that raw material prices in one of the two largest producing regions—the South—have increased dramatically.

CHART 3

### Southern Pine Sawtimber Stumpage Cost

\$/M  
Scribner



<sup>1</sup> The South has no log export trade.

#### c. Log exports

The question is, then: What is the log export problem?

First, let's talk about where the logs are coming from, what species are included, and what portions of the tree are involved:

	Source of log exports by States—1972 <sup>1</sup>	
	Million board feet (Scribner)	Percent
Washington.....	2,210	82
Oregon.....	350	13
California.....	90	3
Alaska.....	50	2
Total.....	2,700	100

<sup>1</sup> 9 months actual, 3 months preliminary survey of port log flows.

#### LOG EXPORTS BY FOREST OWNERSHIP

(In percent)

	Washington	Oregon
National forests.....	9	28
State.....	23	-----
Other public.....	4	8
Forest industry.....	53	56
Other private.....	11	8
Total.....	100	100

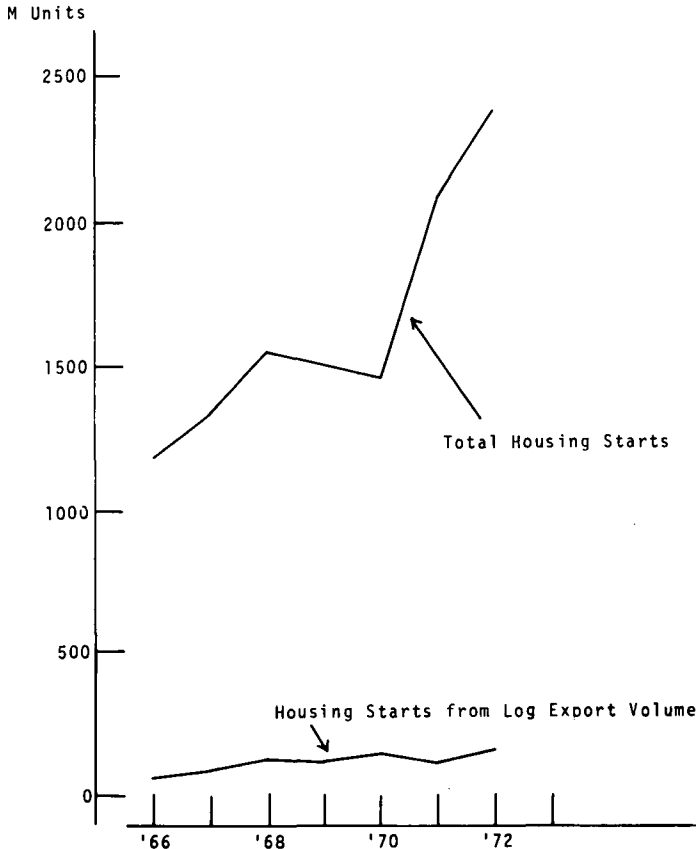
The Japanese mills are small, and saw logs very slowly. Their lumber recovery per log is high. They prefer the whitewoods—the sound portions of the tree—because they most resemble in surface characteristics their own wood. Their purchase of Douglas fir has been of the middle size log used primarily for structural purposes in Japan.

*Species involved in Washington and Oregon log exports, 1972.*—Western hemlock, 52%; other 22%; Douglas fir 24%; Port Orford Cedar 2%.

It has been noted correctly that in 1972 the Japanese demand picked up before U.S. housing fell off, and there have been complaints of a few mills on the West Coast about the availability of raw material supply. The log market today is tight enough that there are some mills with log availability problems related to these mills' historic rates of production. Most of these mills are western red cedar specialty mills, and their problem is largely unrelated to log exports. U.S. lumber prices are based upon the U.S. national market but not the export log market. In the short term, let us remember that over 2 billion feet of logs were exported from Washington State and Washington State lumber manufacturing increased faster than national lumber capacity in 1972. It would require in excess of \$225 million to build mills to convert these logs, and they cannot be transported far in log form. We do believe there are many mills in need of logs, the details of which are set out in Appendix A which follows this statement. Their need does not derive from the export of logs, however. (See chart 4.)

CHART 4

HOUSING STARTS AND  
HOUSING STARTS WHICH COULD BE THEORETICALLY SUPPORTED  
BY LOG EXPORT VOLUME



#### LONGER TERM ISSUES

##### *a. National utilization*

At the present time, there is available approximately 10 billion board feet of lumber from sawing logs currently being chipped. This is greater than our total lumber imports from Canada and three times the lumber equivalent of the log sales to Japan. Each year's harvest in the U.S. also wastes forest residuals in a quantity equal to four times the volume of such "pulpwood" suitable for lumber. In other words, re-allocation of our currently harvested wood and improved utilization per acre will both supply more lumber and make available chips to replace the lumber volume.

Of course, much of this lumber availability is in the South, but we surely must be concerned with our national, not just our regional, wood balances. Moreover, the regional impact of log exports has accelerated better utilization of West coast raw material and has moved the Pacific Northwest far ahead of other timber producing regions.

##### *b. Regional utilization*

To illustrate this fact, let me show you the changes, over the last decade, in the volume and mix of products obtained from two theoretical acres of old-growth forest land. They are theoretical only in that no two acres are the same;

they represent, however, factual examples of improved utilization from our ownership.

One is a Western Oregon acre with Douglas fir as the predominant species. The other is an acre of forest land in Southwest Washington, where hemlock is the predominant species.

For purposes of our discussion, both acres may be considered typical of their stand type. However, they cannot be considered average. Differences in soils, climate, topography and species mixture make each acre of actual forest land differ from each other acre.

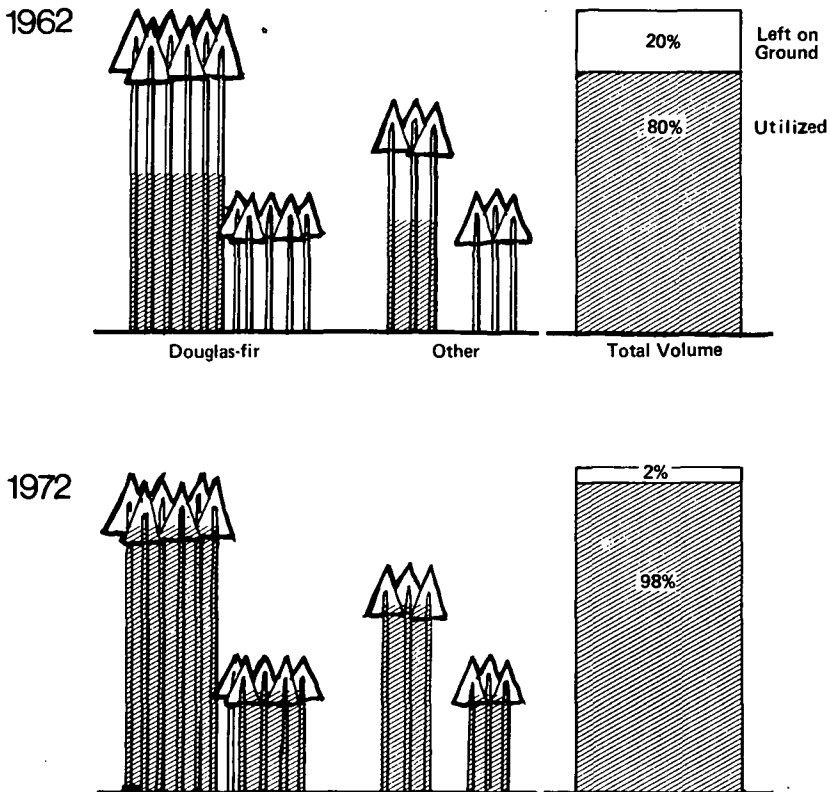
Our Douglas fir acre in Western Oregon carries a total softwood stem volume—not counting stumps, branches, roots, twigs, needles or brush—of 16,000 cubic feet. 13,400 cubic feet, or 84% of the volume, is Douglas fir. Other softwood species, including hemlock, true firs and several types of cedar, amount to 16%.

In 1962, in logging such an acre to serve the markets then available to us, we harvested almost solely the high-quality wood in the lower portion of the largest trees. That represents 80% of the total stem volume on the acre. (See chart 5.)

CHART 5

## WOOD UTILIZATION HAS INCREASED

**Douglas-fir Forest / Oregon**  
**1 Acre - 16,000 cu. ft.**



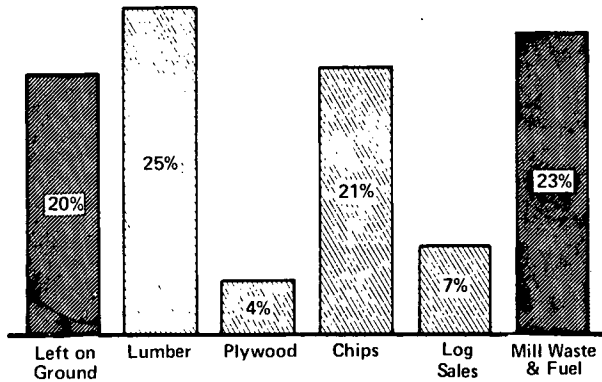
The upper portions of the harvested trees were left on the ground as logging waste, or slash. The smaller trees, of all species, might or might not have survived the logging activity. In either event, we simply left them. Chart 6 illustrates the point; only the shaded portions of the stand were reviewed.

CHART 6

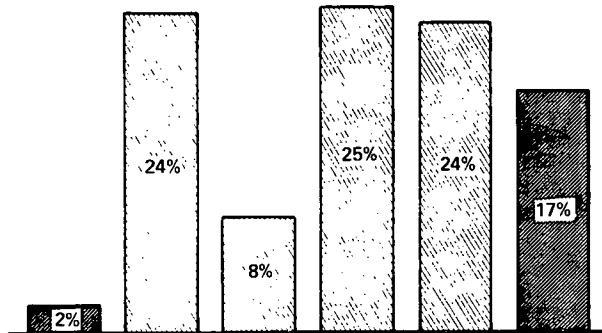
## PRODUCT MIX HAS IMPROVED

**Douglas-fir Forest/Oregon**  
**1 Acre-16,000 cu.ft.**

**1962**



**1972**



By 1972, however, with different markets available to us, we changed our logging specifications significantly. We moved farther up on the large trees of all species. We also began to take wood of comparable quality from smaller trees.

The result, in last year's harvest on this theoretical acre, was removal of all but 2% of the total stem volume.

To find out why this change occurred, let's look now at the product mix obtained for our markets from these volumes.

In 1962, of the amount we removed, one quarter went into lumber and 4% into plywood.

The hemlock—a minor species on this acre, remember—went mostly into chips for pulp and paper production.

Log sales, at that time, were relatively small—only 7%. And incidentally, all of those log sales were to other domestic producers. None went offshore.

Finally, mill waste was 23% of the total stem volume. And a growing portion of that was moving from the outmoded wigwam burners into the power boilers for our mills.

In the decade following 1962, however, new market alternatives opened up. It was not so much product-oriented as geographic. It was the export market for logs and chips. And rather than replacing our domestic production of lumber and plywood, it gave us the economic incentive to do a better job utilizing all of our resources.

Thus, under 1972 harvest standards, we removed 98% of the total volume on our acre, and left only 2%. That fact, in itself, provided a major benefit in terms of logging aesthetics.

And look what happened to our product mix. Lumber production stayed almost constant. Plywood production doubled. Chip volume also went up. Log sales rose to 24% of the total volume, while mill wastes declined to 17%.

Of the log sales, incidentally, 16% were to domestic customers for their own production, and 8% went offshore.

On this acre, then, the growth of the export market helped defray the costs of bringing out and utilizing much more wood. In other words—it helped us do a better job of logging and manufacturing.

In volume terms, however, the export totals from this acre were relatively small. This was, after all, a Douglas fir acre—and I have already mentioned that our customers for export logs prefer whitewood species.

Let's look now at the impact of the growing export market on our production from a predominantly whitewood acre.

This particular acre typifies those in our Twin Harbors area of Southwest Washington, where Weyerhaeuser established the nation's first industrial tree farm, in 1941, launching the sustained-yield movement in commercial forestry.

It carries a total stem volume of 11,800 cubic feet. Of that, 62% is hemlock. Most of the remainder is Douglas fir, with some true firs and cedar mixed in.

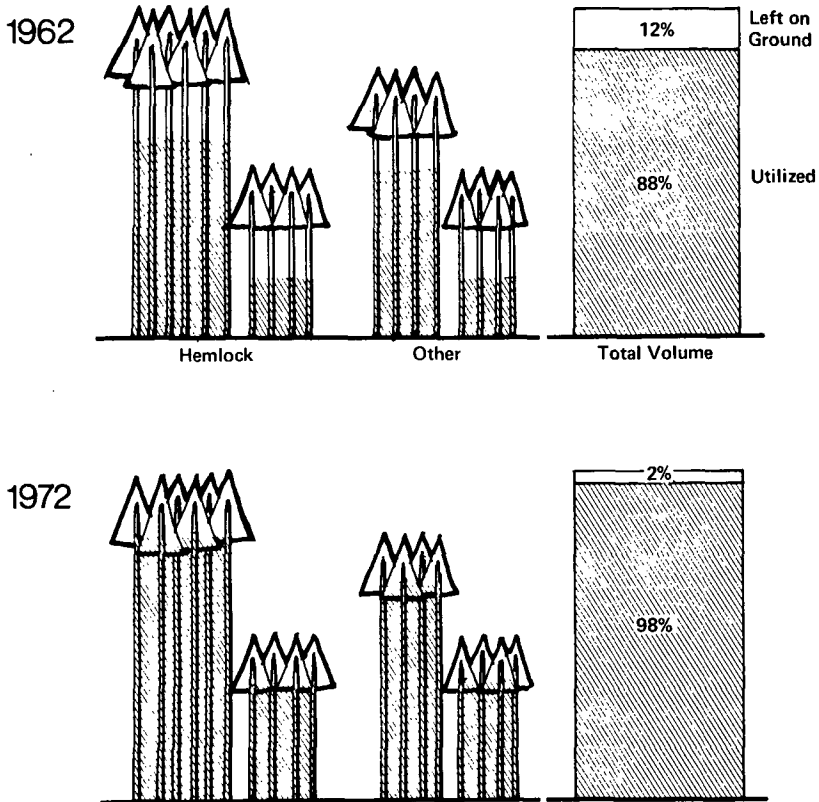
In 1962, largely because this acre's minor species was a valuable one, we were already removing 88% of the total volume at harvest.

By 1972, that figure had risen to 98%. As with our Douglas fir acre, the only major shift in market demand was the growth of offshore markets. Let's analyze this growth in demand in terms of product mix from our hemlock acre. See chart 7.

CHART 7

**WOOD UTILIZATION HAS INCREASED**

**Hemlock Forest/ S.W. Washington**  
**1 Acre- 11,800 cu.ft.**

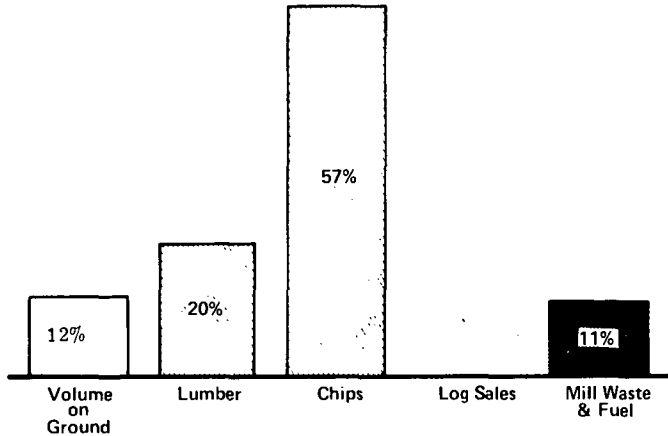
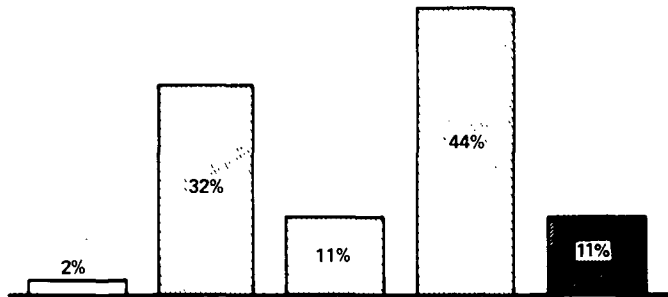


In 1962, one-fifth of the total volume on the acre went into lumber. Most of that was Douglas fir. The hemlock went mostly into chips. Mill waste and fuel amounted to 11%. There were no log sales.

CHART 8

**PRODUCT MIX HAS IMPROVED**

**Hemlock Forest/S.W. Washington**  
**1 Acre-11,800 cu.ft.**

**1962****1972**

By 1972, however, significant shifts had occurred. Logging wastes dropped to 2% of total volume. Lumber increased by more than half. Chip production, however, declined sharply, while mill wastes remained the same.

What happened is obvious. In terms of this acre, the export market made hemlock a prime species in its own right. Instead of being chipped, it went into log markets that now accounted for 44% of the total stem volume on the acre. The added income from these sales, moreover, provided the cash flow to increase the total lumber production from the acre.

Thus, the log export market, along with the wood chip export market, has permitted a drastic improvement in utilization and yield per acre.

**c. Regional investment**

Whitewood logs formerly used primarily for pulp have a higher value as logs for lumber production in Japan. We have been able to bring out of the woods logs which formerly were uneconomic, and manufacture domestic lumber out



of them; we have used more of the forest residuals for wood chips, and we have supplied our domestic mills with steadily *increasing* volumes of raw materials. The export market has increased, rather than decreased, the domestic supply. In fact, in the past five years, Weyerhaeuser alone has constructed 11 new mills in Washington and Oregon.

Weyerhaeuser Company's investment pattern in Washington and Oregon in the 1970-73 period is shown below:

Plant, forest capital and expense, roads: 1970—\$82.1 million; 1971—\$62.8 million; 1972—\$73.6 million; 1973 estimate—\$102.2 million.

And Weyerhaeuser Company's production of lumber in the two states has shown a steady increase during the current building boom: 1970—1.561 billion board feet; 1971—1.634 billion board feet; 1972—1.690 billion board feet; 1973 estimate—1.738 billion board feet.

The availability of the log market, by increasing the value not only of hemlock but of intermediate grade logs of most species, has provided the economic incentive to improve both yield per acre—by transporting what formerly were harvest wastes out of the woods—and product yield.

New mills have been installed to make use of residuals, and to manufacture lumber and plywood from small diameter material formerly regarded as pulpwood. And, because of the assurance of relatively stable markets for all forest products, with exports lessening the tremendous cyclical swings of the domestic markets, we have been able to increase our regeneration and forest management investments tenfold, to increase future supply.

A similar trend is beginning to evolve in the South with its transportation advantage to major U.S. markets.

Before we relax too much, however, we should remember that we are only using about 55% of the green weight of a tree when we use only the stem. We face a tremendous energy crisis in this country and it is more than likely that free markets for the stemwood will permit improved utilization of limbs, needles, tops and stumps for fuel or other more valuable products.

#### *d. Markets vis-a-vis Canada*

None of these investments can be economically justified if export or any other significant market were foreclosed. As a result, the region's future timber supply estimates would be revised drastically downward, and yield per acre would return to historic levels. Washington and Oregon, their competitive position in both U.S. and Japanese markets lost to British Columbia, would face long-term decline in forest product manufacturing.

And, in both the short term and long term, domestic lumber prices would be artificially *inflated* above present levels.

British Columbia does not serve only the United States market. It is a major world exporter. Last year 280 million board feet of lumber, mostly in the form of cants and squares, were exported to Japan. Its coastal mills already are technologically able to serve the Japanese market.

If Pacific Northwest log exports were banned, or other action taken to prevent an assured steady availability of those logs, 25% of Japan's softwood supply would be affected. The only quickly available alternate supply is British Columbia "Japanese squares." Japan would outbid the United States for this important portion of our lumber-for-housing supply, and it would be diverted quickly to Japan, greatly increasing the present domestic lumber shortage. Meanwhile, most of the logs which would have been exported from the Pacific Northwest would simply stay in the woods, since manufacturing capacity is not available.

In the longer term, British Columbia has the resource available to increase its lumber manufacturing capacity to serve both the Japanese and U.S. markets. It would do so, however, only if prices in the United States were competitive with those in Japan; in other words, if they rose above today's levels.

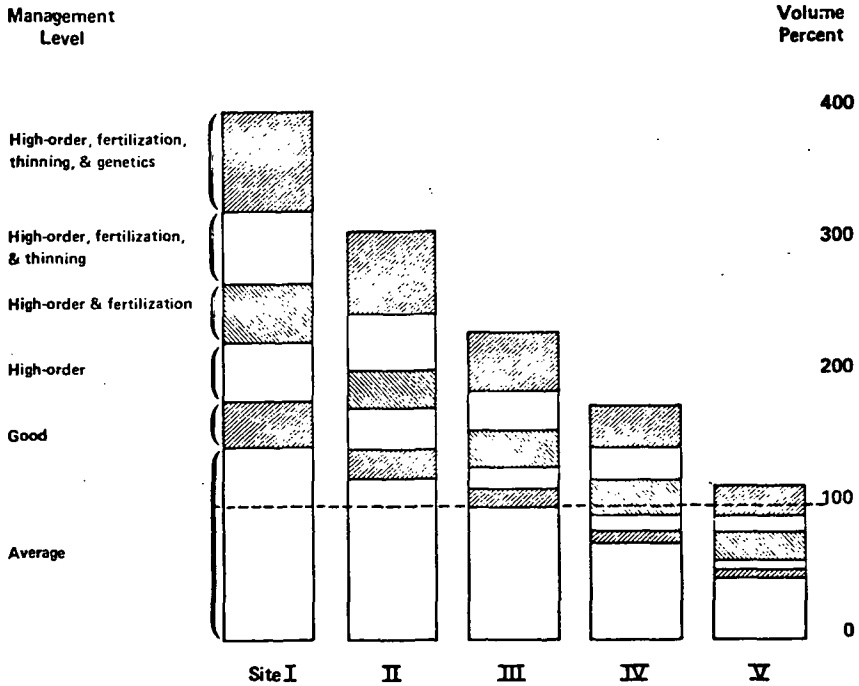
#### *e. Regional future growth*

Now, the question arises: Do we believe the renewable forest resource of Washington and Oregon also can support both the domestic lumber and the export log market?

The answer is yes.

These markets, and the level of utilization they encourage, have provided an incentive for forest management investment heretofore unparalleled. The growth increments that each level of management intensification, or put another way, each level of forest management investment, have upon timber supply is illustrated chart 9:

CHART 9



*Relative productivity by site class and by level of management practiced. Basis is MAI at age of culmination measured in cubic feet of entire stem. MAI of Douglas-fir on Site III at lowest level of management is assigned weight of 100.*

The soils of the Pacific Northwest are some of the world's most productive softwood-producing soils. We are just now able to make the long-term investments to probe the full productive capacity of these soils.

*f. Balance of payments*

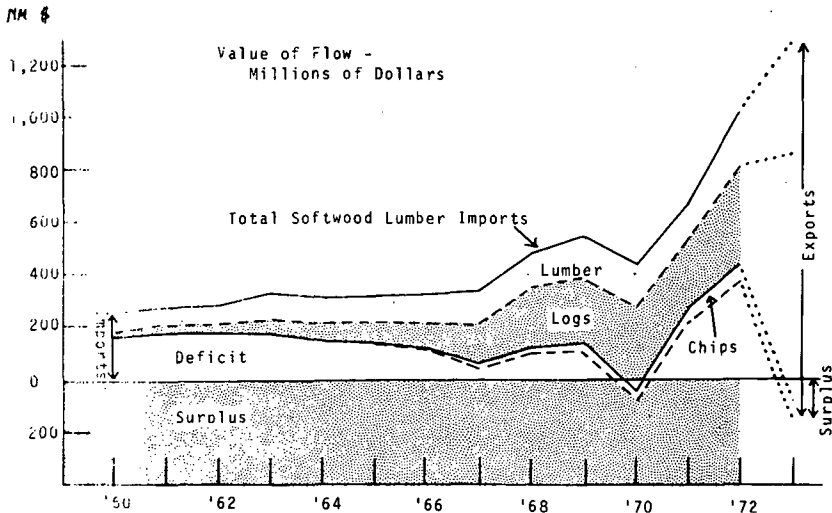
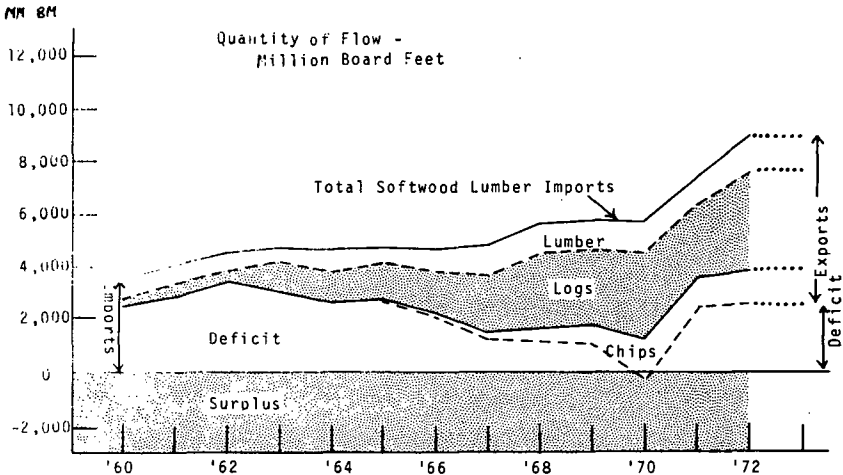
One last point: The question of balance of trade with Canada and Japan has been raised. The impact of log exports upon our trade balance with Japan is self-evident. In 1972, the trade should provide a favorable contribution of more than \$378 million, and considerably more in 1973.

The impact upon our trade with Canada is more complex:

To put this in a more total trade perspective, let's look at the recent history of our lumber imports and lumber and log exports over the recent history. Chart 10 shows that British Columbia imports penetrated into our markets even in the relatively weak market years of the early 60s. In that period the displaced U.S. Pacific Northwest shipment of lumber to the East Coast that would now approach 2 billion board feet. In the strong market years of 1968 and again in 1971 and 1972, British Columbia imports grew much more rapidly than domestic production.

CHART 10

FOREIGN TRADE - WOOD PRODUCTS



The U.S. was rapidly becoming a large net importer of wood volume. Log exports of low domestic value species, from regions not competitive in the U.S. lumber market, *stopped* this trend toward the U.S. becoming a large net importer. Only the peak housing demand years of 1971 and 1972 have temporarily increased our wood volume deficit.

But this pattern is even more striking if we look at the trade revenue that flows from these volumes: In the strong log export year of 1970, the U.S. generated a wood revenue surplus even though we exported only one-half the volume of raw materials that we imported. We export species that are surplus to our needs from regions than can't compete, and import, at lower prices, the final products that we need, and we make a profit on the trade. These are international markets working in our favor, not against it. It would seem absurd to restrict log exports and thus lose this advantage.

#### CONCLUSION

The question remains: Lumber and plywood prices are high. What can be done?

In the short term, removal of margin constraints will bring more capacity into the manufacturing base. We have already moved to try to help in specific raw material short situations, and we believe the national forest system, as the country's largest supplier of softwood timber to the industry, must make raw material available as set forth in Appendix A. These actions will free up supply and together with some expected slowdown in demand during the third quarter, prices will ease.

The frequency and size of housing cycles needs to be reduced.

Governmentally supported mortgage money market that would provide a long-term mortgage interest rate low enough so that most consumers could own their home and which would attract a constant high level of housing investment.

Housing subsidy programs similar in concept to 235 and 236 can be used to modify the extreme fluctuations in housing cycles and at the same time provide an adequate standard of housing for Americans with substantial incomes.

Because the USFS provides such a preponderance of the softwood stumpage to the industry, the marketing of that timber must be made more responsive to the lumber demand cycles in the following respects:

- (a) Total volume marketed should increase or decrease with the forecasted swings in lumber and plywood demand.
- (b) Average sale size should be increased to provide greater assurance of supply to mills in place.
- (c) Average term of the sales should be extremed to provide the buyer with flexibility as to time of timber removal.
- (d) All sales should be on product index basis so that decreases in product prices will not force marginal producers to close their mills.
- (e) Sales should be on an acreage or lump-sum basis to encourage greater utilization of the stumpage volume.

Interference with export of logs from Oregon, Washington and California is not a solution for several reasons:

- (1) Log costs are not pushing lumber and plywood prices upward in this period of high housing demand and that
- (2) A log export ban would not increase lumber availability and decrease price, and probably would have the opposite effect.
- (3) Much of the Nation's forest resource is underutilized, and additional, rather than restricted market, provide incentive for better utilization.
- (4) Log exports thus have served to increase the domestic product supply, not decrease it.

(5) The log export trade is important to a favorable U.S. trade balance, both with Japan and with Canada. Thank you.

[The appended document to Mr. Bingham's statement "Current Status of U.S. Lumber and Plywood Production and Recommendations for Ways to Increase Production by Increasing Volume of USFS Timber on the Market in 1973," follows:]

CURRENT STATUS OF U.S. LUMBER  
AND PLYWOOD PRODUCTION AND  
RECOMMENDATIONS FOR WAYS TO  
INCREASE PRODUCTION BY  
INCREASING VOLUME OF USFS  
TIMBER ON THE MARKET  
IN 1973

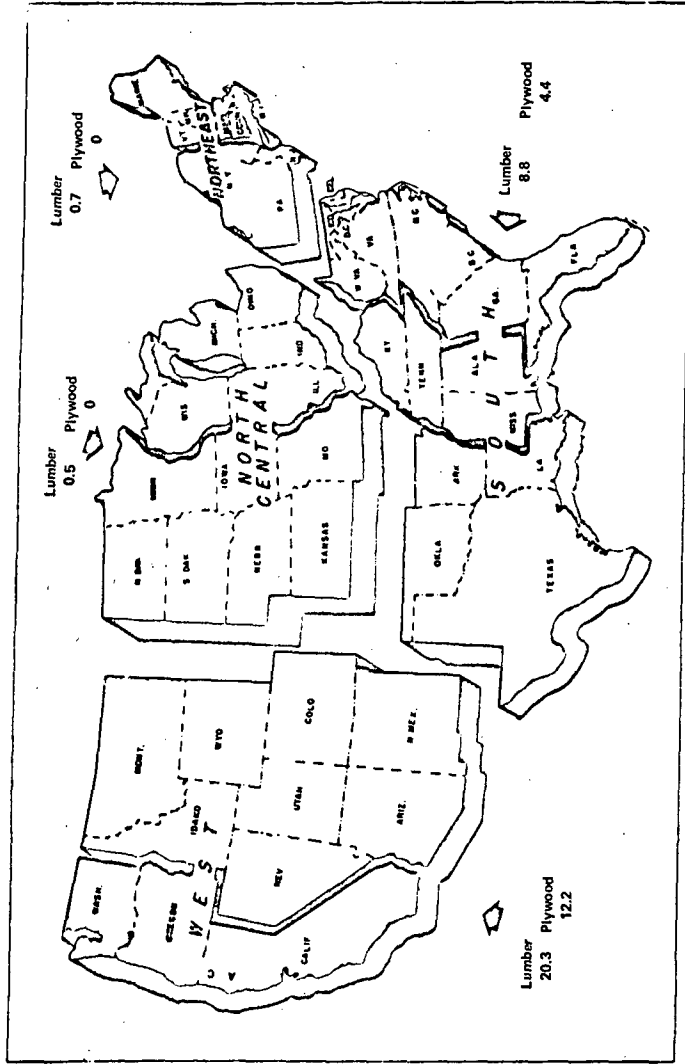
APPENDIX A

INTRODUCTION

The following is information on the current status of lumber and plywood production versus capacity in four regions of the U. S. The levels of production shown in the following chart by U. S. census region explains our concentration on the West and South.

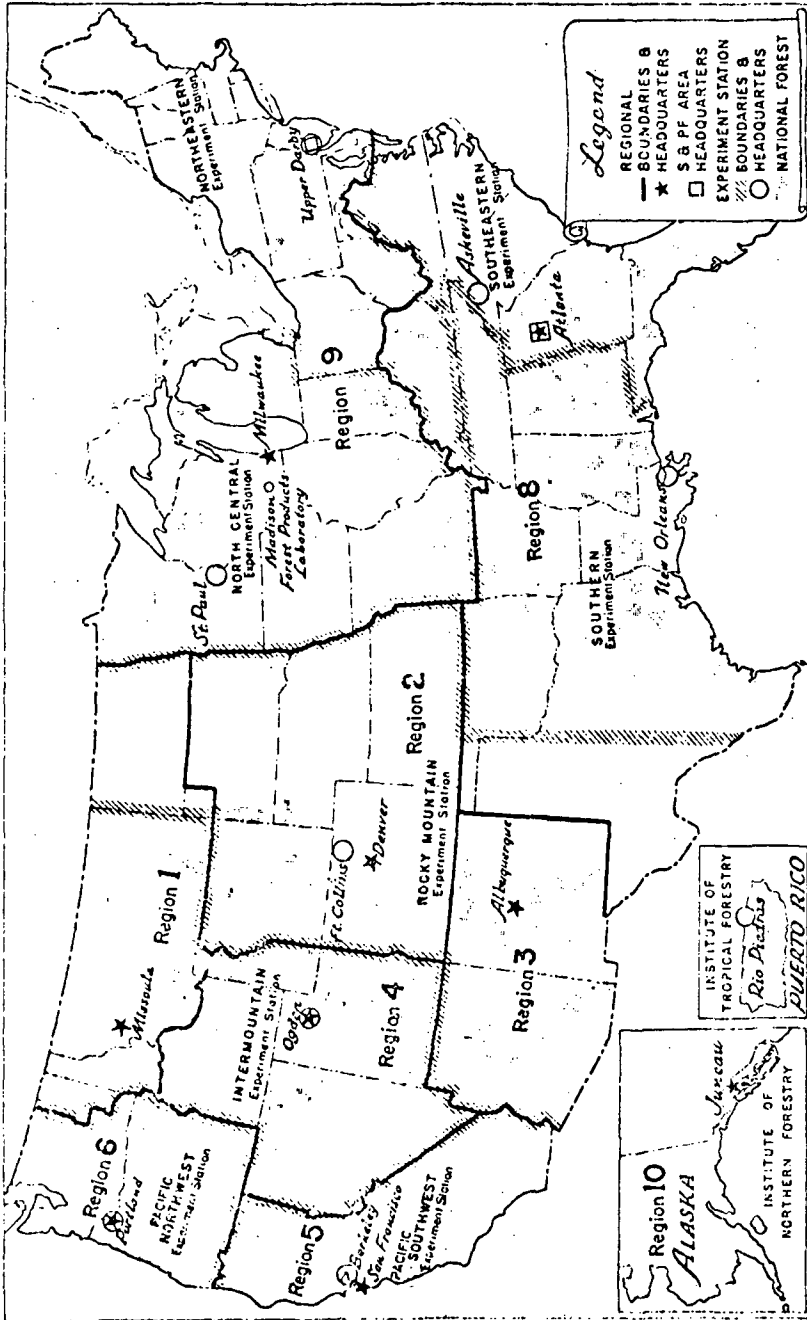
The information on the Northwest, Inland, California, and Southern regions is self explanatory. The closing recommendations represent what we believe to be realistic actions that can be taken immediately to lessen some of the short-term pressure for wood products.

1971 SOFTWOOD LUMBER & PLYWOOD PRODUCTION  
(Billion BF)



(U.S. Census Regions)

## ADMINISTRATIVE REGIONS AND EXPERIMENT STATIONS



WASHINGTON - OREGON REGIONSUMMARY

The Washington-Oregon Region offers some opportunity for production increases in lumber and plywood.

CURRENT PRODUCTION

Lumber - Production for the first eight weeks of 1973 has peaked out at about 84 MMBF per week, up from the seasonal/holiday periods.

Plywood - Current plywood production in Washington and Oregon is estimated at 232.3 MMSF per week with a capacity of 229.1 MMBF indicating a production rate of 101%.

OWNERSHIP

In the Washington-Oregon Region federal timber represents 49.5% of the ownership, with industry 21.7% and small private 17.3%.

U. S. FOREST SERVICE - SALE ACCOMPLISHMENTS

The U. S. Forest Service Region 6 is the principal region for both Washington and Oregon. The 1971 fiscal year allowable cut for Region 6 was 4,390 MMBF and the actual sold was 4,770 MMBF. The estimated sell for FY 1972 is 5,210 MMBF.

GENERAL

The Washington-Oregon Region is generally operating at near-capacity levels. During 1972, when U. S. housing starts increased by more than 60% over 1970 levels, Oregon and Washington lumber production increased by 1.7 billion board feet and plywood production by more than 500 million square feet. Raw material supply has generally not been a limiting factor in achieving capacity production in this region; Washington and Oregon mills currently have about 2.8 years' federal allowable cut under contract.

Despite the generally adequate log supply in this region, there have been some local shortages of specific log grades and species that are limiting the ability of some mills to operate at full capacity. Recognizing this situation, Weyerhaeuser Company last week announced two specific steps that would be taken to alleviate localized log shortages.

In order to insure an adequate supply of cedar logs to state of Washington lumber, shingle and shake mills, the company will give a first refusal



option at domestic prices to any cedar produced from our lands that is not needed in our own manufacturing plants. At the same time, we will revise our logging plans to increase the availability of cedar, which makes up only 6.4% of the standing inventory in Washington's commercial forestlands.

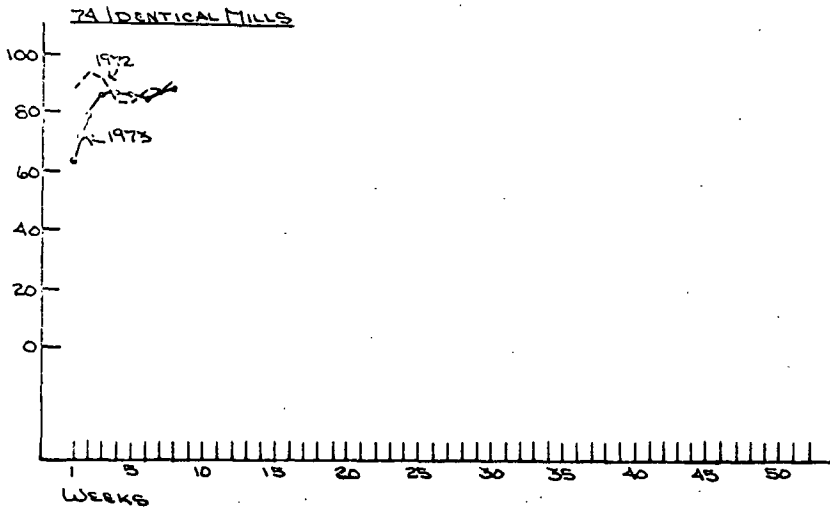
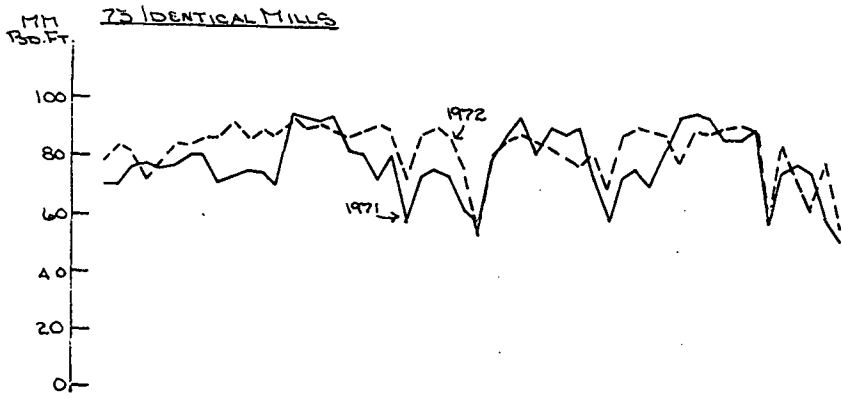
In Western Oregon, some mills are having short-term log supply problems, primarily due to the inability to reach high elevation national forest timber during the winter. To alleviate this temporary log shortage, Weyerhaeuser Company is making 50 million board feet of low-lying timber available in areas that are roaded and ready to harvest. We will require that mills buying this timber log it within the calendar year to help relieve the overall lumber and plywood supply situation.

In response to this announcement, we have received many inquiries and our log marketing managers are now taking steps to accommodate these requests, insuring that any volume provided will be processed quickly for the domestic market.

#### PROBLEM AREAS

1. Need some additional low elevation sales in Willamette Valley area or Oregon and northern (Mt. Baker) area of Washington.
2. Indications that rail car shortage will become a serious bottleneck to not only product flow but some flow of raw material such as green veneer to plywood layup mills.

SOFTWOOD LUMBER PRODUCTION  
W.W.P.A. - COAST REGION



INLAND REGION (INTERMOUNTAIN)SUMMARY

The Inland Region offers a good short-term opportunity for production increases in lumber.

CURRENT PRODUCTION

In the Inland Region the peak sustainable production appears to be around 95 million board feet/week, with 1972 matching closely the 1971 seasonal variations except for a few weeks in mid-summer 1972 when production fell short of the surge in 1971. Production in the first nine weeks of 1973 seems to be running a few percent below 1972, which may be more than a seasonal difference. No consistent fall-off was evident in the last few weeks of 1972, so early 1973 data may suggest some log shortage or rebellion from overtime - although it still could be just a seasonal difference. (See Chart Page.)

Plywood - Current plywood production in this region is estimated at 24.2 MMSF per week versus a capacity of 23.6 MMSF equalling a current production rate of 102.4%.

OWNERSHIP

The ownership in the northern and southern Rocky Mountain areas (Intermountain Region) is 72.5% federally owned with the balance heavy to small private ownerships 3.6% and industry 20.2%. Thus, any significant increase in raw material availability will be a result of federal agency actions.

U. S. FOREST SERVICE - SALE ACCOMPLISHMENTS

There are four U. S. Forest Service Regions that comprise the Intermountain Region. The breakdown, as far as allowable cuts, financed to cut and actual cuts, are as follows:

<u>Region</u>	<u>Allowable Cut</u>	<u>Actual Cut FY 71</u>	<u>Estimated Cut FY 72</u>
I	1,671 MMBF	1,186 MMBF	1,136 MMBF
II	595 MMBF	234 MMBF	315 MMBF
III	409 MMBF	316 MMBF	380 MMBF
IV	740 MMBF	471 MMBF	428 MMBF

### GENERAL COMMENTS

Many operators who are currently running on a normal seasonal one-shift basis would expand production to a two-shift basis if they are reasonably assured of additional timber harvest being available this spring, as soon as road conditions allow entry to the woods. However, they don't want to risk laying off employees in the spring when their log decks run out, unless they can obtain and process timber quickly. They specifically indicated additional needs above scheduled cuts as follows to get to two-shift capacity:

<u>REGION</u>	<u>FOREST</u>	<u>ADDITIONAL MMBF NEEDED THIS YEAR</u>
I	Beaverhead	20 MMBF
	Bitterroot	30 MMBF
	Gallatin	20 MMBF
	Lolo	100 MMBF
II	Big Horn	20 MMBF
	Black Hills	50 MMBF
	Grand Mesa - Uncompahgre	20 MMBF
	Gunnison	20 MMBF
	Medicine Bow	30 MMBF
	Rio Grande	30 MMBF
	Rooseveltd	10 MMBF
	Routt	30 MMBF
	San Juan	100 MMBF
	Shoshone	5 MMBF
	White River	15 MMBF

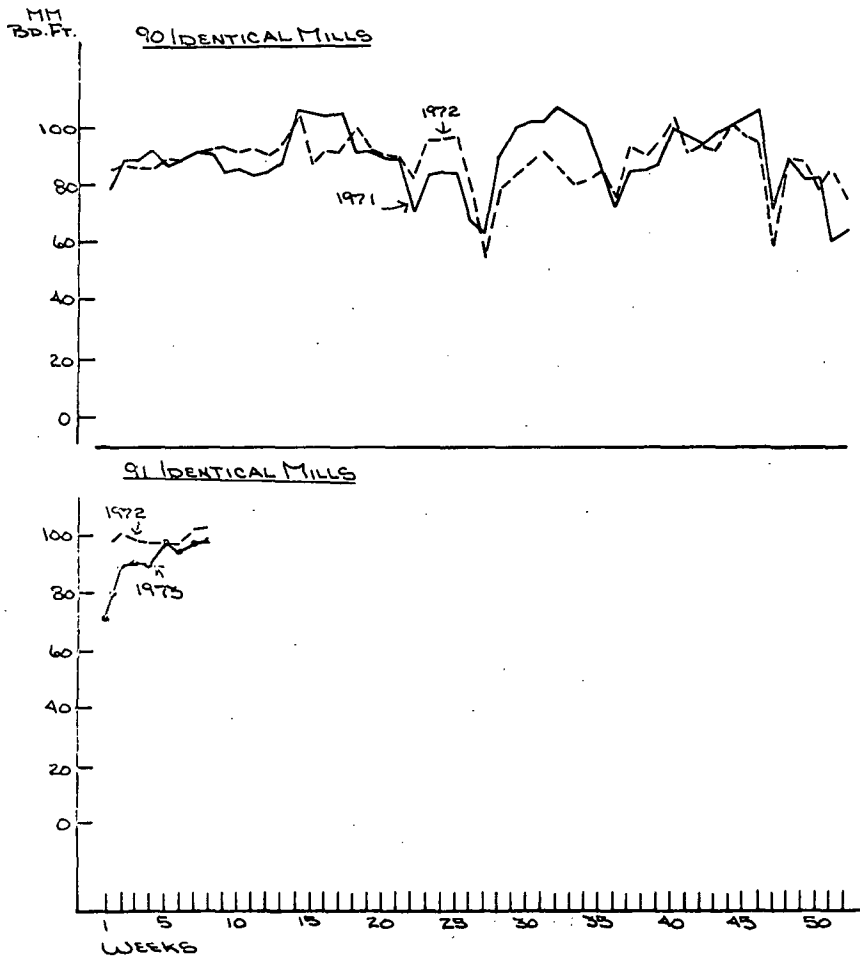
IV	Ashley	5 MMBF
	Boise	45 MMBF
	Challis	5 MMBF
	Dixie	15 MMBF
	Payette	30 MMBF
	Salmon	10 MMBF
	Sawtooth	5 MMBF
	Targhee	20 MMBF
	Teton	20 MMBF
	Wasatch	20 MMBF

Additional delays in sales this spring will be caused by lack of personnel and financing to prepare new environmental impact statements.

#### PROBLEM AREAS

1. Continuing trend of actual cuts being less than financed to cut and allowable cuts.
2. Proposed cutbacks in authorized road construction funds and engineering personnel.
3. Lack of direct funding or personnel to perform environmental statement requirements.

# SOFTWOOD LUMBER PRODUCTION W.W.P.A. - INLAND REGION



CALIFORNIA REGIONSUMMARY

The California Region offers the second best short-term opportunity for production increases in lumber and plywood.

CURRENT PRODUCTION

Lumber - It is impossible to identify the current actual production level in California as there is no single reporting agency. A survey of three associations with members in California indicate that there is at least 15%-20% additional production available.

Plywood - Current plywood production in the California Region is estimated at 18.6 MMBF per week with a capacity of 23.6 MMBF indicating a production rate of 74.9%.

OWNERSHIP

In the California area 52% of all timber ownership is in the federal category with 15.8% industry and 31.8% small private holdings. Thus, the greatest opportunity for change in supply exists with the federal agencies.

U.S. FOREST SERVICE - SALE ACCOMPLISHMENTS

The California Region is served by the U. S. Forest Service Region 5. The allowable cut for Region 5 is 1,949 MMBF. The actual cut in FY 1971 was 1,751 MMBF, and the estimated cut in FY 72 is 1,892 MMBF.

GENERAL COMMENTS

It is estimated that on a monthly basis the current cut is approximately 178.5 MMBF in 16 member firms representing 44 plants. These firms could take another 36.1 MMBF footage per month, or an increase of 20.2% in the log supply.

Specific forests indicated that could provide added volume are as follows:

<u>Forest</u>	<u>Additional MMBF/Month Needed</u>
Klamath	9.0
Shasta Trinity	6.2
Six Rivers	5.7
Tahoe	4.2
Mendocino	3.8
Lassen	2.5
Plumas	1.9
Sequoia	1.7

<u>Forest</u>	<u>Additional MMBF/Month Needed</u>
Sierra	.8
El Dorado	.5

This survey of major plants in California did not indicate any closures due to log supply at this time. However, it is expected that within this month, if no additional logs are available, that one member with four plants, in the Plumas-Tahoe forest area, will close as will one plant in the Klamath forest area. It is probable that some smaller mills, not contacted, might be closed now.

#### PROBLEM AREAS

1. Although actual cuts are comparable to allowable cuts, additional federal timber could be processed in the California Region.
2. Again, it is reported that some programs for next summer will not be available due to lack of funds and personnel to process required environmental impact statements.



SOUTHERN REGIONSUMMARY

No significant short-term opportunities for production increases exist in this region.

CURRENT PRODUCTION

Lumber - Current lumber production in the Southern Region (seasonally adjusted) is estimated at 35 MMBF per week against a capacity of 35 MMBF equaling a 100% production rate. (See chart page.)

Plywood - The current plywood production in the Southern Region is estimated at 114.1 MMBF per week against an installed capacity of 103.5 MMSF or current production rate of 110.2%.

OWNERSHIP

In the Southern Region federal timber ownership only represents 7.4% of total ownership with industry owning 18.3% and small private owners - 72.4%. This means that there is little that federal agencies can do to improve the situation in the South.

U. S. FOREST SERVICE - SALE ACCOMPLISHMENTS

The U.S. Forest Service Region 8 is the principal region for the southern area. The 1971 fiscal year allowable cut for Region 8 was 659 MMBF, and the actual sold was 575 MMBF. In the 1972 fiscal year the allowable cut was 1,156 MMBF, and the estimated sold is 1,050 MMBF.

GENERAL

The production versus capacity figures indicate that no major problems in production exist in the South. There are some spotty cases of log shortages, but they are all due to weather problems. In the North Carolina area a year and a half of bad weather has made the log flow problem critical, but not enough to affect capacity production except in remote areas. In the Miss./Ala. and the Dierks area, the same statement applies (any problems are strictly due to weather). A substantial problem in pulp wood supply exists in the Miss./Ala. Region, but this is due predominantly to weather and the small "mom and pop operations" that supply this pulp wood.

PROBLEM AREAS

No significant problems exist in the Southern Region.

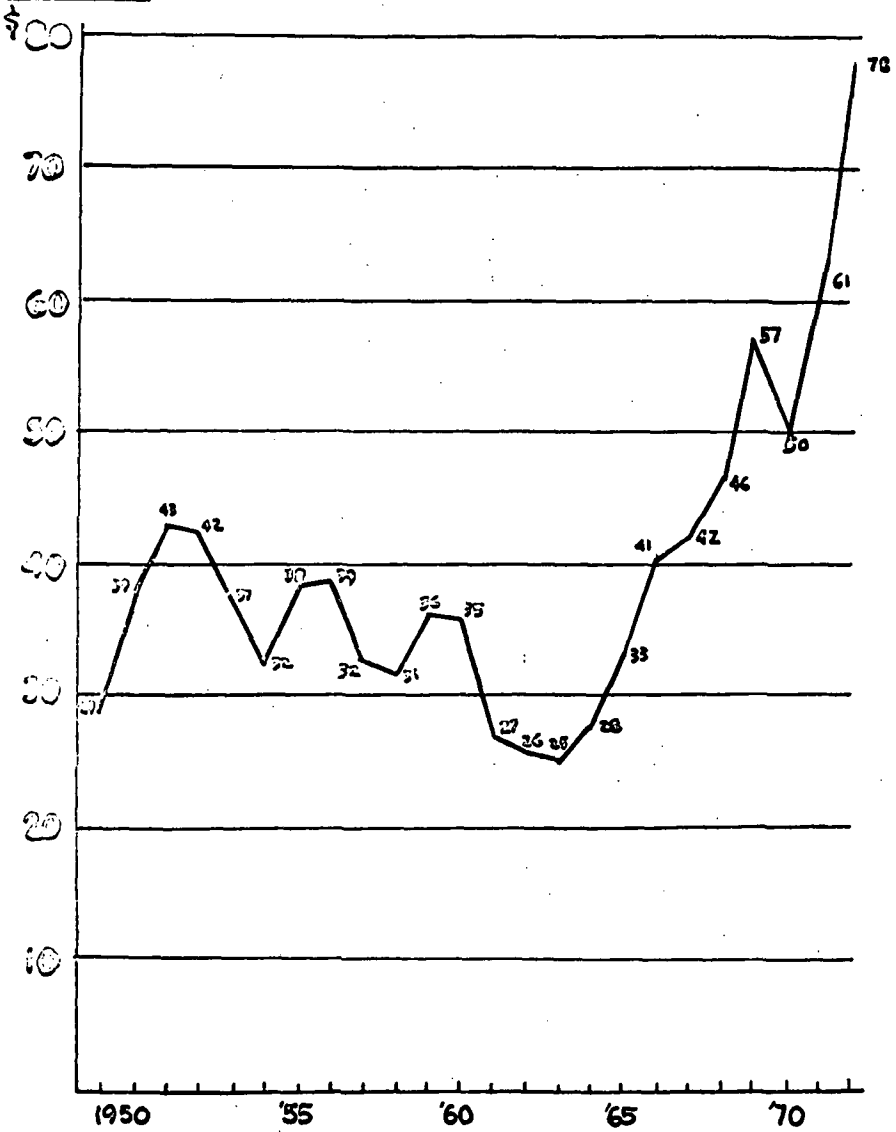
STUMPAGE PRICES

The following chart shows the average Southern pine stumpage costs from 1950 through the end of 1972.

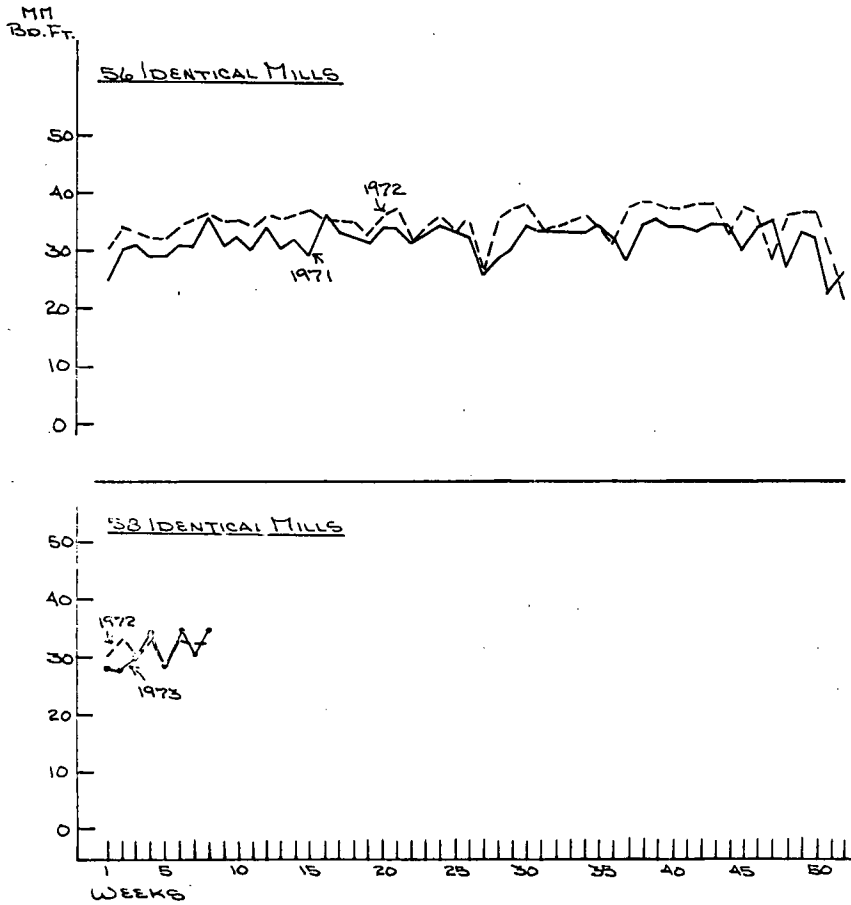
The rising prices of stumpage in a region that has no exports of logs reinforce the point that stumpage prices react to supply and demand relationships that are directly tied to housing start levels, and not export sales of raw material.

# AVERAGE SOUTHERN PINE SAWTIMBER STUMPAGE COST

Per MBF  
scribner



SOFTWOOD LUMBER PRODUCTION  
SOUTHERN PINE REGION



RECOMMENDATIONS TO INCREASE THE VOLUME OF NATIONAL FOREST TIMBER  
ON THE MARKET IN 1973

The current strong demand for lumber and plywood is taxing the ability of the industry's production facilities to maintain an adequate flow of products into the market, which in turn is generating a strong upward pull on prices. Additional production is possible in some regions through the addition of second shifts and overtime if the industry becomes confident that an additional supply of logs would be available this spring. The following recommendations are offered as positive steps that the Forest Service and Bureau of Land Management could take to demonstrate to the industry that the Administration recognizes the urgency of the situation. They are not long-term solutions but actions that will offer immediate actual and psychological relief to the problems at hand.

1. Environmental Impact Statements - Many Western Forests report that preparation of NEPA statements will be a major cause of delay in the ability to offer timber sales this spring. There appears to be much internal lack of coordination among the functional divisions in the various National Forest headquarters regarding the timely preparation of NEPA statements in a manner that will assure that the financed sell volume is actually offered.

It would be helpful if the industry knew that the Administration was assigning the highest priority to preparation of NEPA statements in Regions where timber sales are needed to alleviate log shortages. Regions One, Two, Four and Five would benefit most from this effort, and to a lesser degree Region Three and Six.

This situation is serious enough to suggest that the Secretary of Agriculture direct the Chief of the Forest Service to insure that the Forest Service is not over-reacting to NEPA statement requirements. The Forest Service should do what is needed, by Region, to relax NEPA statement requirements in order to make planned harvest volumes available, even at the risk of incurring court action by environmental groups. We recommend that the Forest Service establish a traveling task force to insure NEPA statement preparation is coordinated from the individual National Forests to the Washington Office and CEQ. It is essential that the Forest Supervisor's staffs understand the urgency of insuring timely preparation of the NEPA statements.

2. Road Construction - We recommend that steps be taken immediately to insure that construction funds are spent to finance new construction of relatively low cost per mile access roads, rather than reconstruction of existing roads or development of more costly forest highways. If possible, an adequate share of the money should be spent on contract or in service engineering of roads to be built by Federal timber purchasers in conjunction with planned timber sales.

An additional opportunity to accelerate access construction can be obtained by placing priority emphasis on cooperator construction in cost share agreement areas where private and Federal lands are intermingled. In most cases the private cooperator will be more than willing to perform the actual construction if the necessary NEPA statements and easements are expedited by the Forest Service.

Again, a task force could help realize the opportunity that exists here; at a minimum the individual Forests should place priority on the task and insure that road construction plans identify all opportunities where cooperator construction could provide quick access to National Forest timber.

3. Timber Sales Administration - Perhaps the most important thing the Administration could do to provide a psychological uplift to Federal timber purchasers, would be to insure that the Forest Service and BLM will strive to meet their allowable cut commitments in 1973. Despite cuts in funding and manpower limitations, it would be very helpful if the Federal agencies displayed an attitude of doing everything they can with the resources they have, rather than evidence a negative, defeatist attitude. The Secretaries should get a commitment from all Western Regions that they will respond to the nation's need for wood.

Among the short-term measures the Regions should take would be a determined effort to move FY1974 sales into the first half of the year, streamlined sale preparation measures wherever Federal timber is sold on a log scale basis, and monthly tracking of log supplies at the mills to know where emphasis should be placed on making more sales available. In the Western states it would also be helpful if the Forest Supervisors encouraged their timber purchasers to perform snow removal and road maintenance in order to start operating sales under contract as early as possible. Purchasers are sometimes prevented from getting an early start on spring sales due to the conservatism of some local administrators who object to the increased road maintenance made necessary by early spring operation.

4. Manpower Allocation - Manpower ceilings have placed both a real and imagined burden on the National Forest in accomplishing all of their multiple use goals. In response to the need for increased log supply in some Regions, it would be desirable if the Regional Forester and Forest Supervisors could reassign their professional staffs to give attention to priority problems. Such tasks as NEPA statement preparation, timber sale preparation, and right-of-way administration must receive emphasis if the allowable cut goals are to be achieved. Undoubtedly, there will be some defensiveness if people are reassigned from other projects, but strong leadership by the Regional Foresters and Forest Supervisors could accomplish much in the short-term. There should be no need to neglect other multiple use goals if the task is approached with a positive attitude.
5. Price Controls - In addition to increasing raw material availability, the government must administer its price and margin control program to permit mill operators to make a reasonable return on the increased production. This means that price and margin controls should not be maintained at levels which will result in a disincentive to increase production.

Mr. ASHLEY. Thank you, Mr. Bingham.

That is a good statement, and I am sure it provokes a number of questions, not only among those of us here but among your fellow panelists.

Mr. REES?

Mr. REES. Thank you, Mr. Chairman.

Maybe I should address my questions to all of you.

It is my impression from the testimony that all of the mills are producing at full capacity, that there is really not any excess mill capacity available.

Mr. BINGHAM. Mr. Congressman, I am sorry. I obviously created that impression. There is unused capacity in the States of Montana, Idaho, and California in particular, and in the appendix we made some specific suggestions as to how much more a volume of logs in those producing regions would bring more products to market.

Mr. REES. What do you estimate to be your log inventory for the Pacific Northwest?

Mr. BINGHAM. At the current time, the inventory of logs—I do not have the number, Congressman, but—

Mr. REES. Would it be sufficient to keep your mills going for 6 months or 1 year, or 2 years?

Mr. BINGHAM. Most of the mills do not carry that large an inventory. The inventory—I will put it this way—is large, relative to past years. We have had an open winter which has helped. However, the mills are concerned about the supply of logs out in May, June, and July. The responses that we have had in the past couple of weeks are that the mills have an adequate supply of logs to the current operating posture; they are a little bit concerned about what might happen unless the Forest Service gets up to a sustainable cut pretty quick.

Mr. REES. In listening to the testimony, it is my feeling that there is some confusion between finished lumber and logs. It appears that most of the mills are working to capacity in producing finished lumber, but that the mills do have an adequate supply of logs. On the other hand, we are also exporting logs to Japan, and it appears that if we had an embargo on logs to Japan it really would not affect the domestic price structure, nor would it affect the amount of finished lumber being produced by the mills.

Mr. BINGHAM. I think it would be just the opposite. Two billion feet are moving out of the State of Washington where mills are operating at capacity. If you force the Japanese out of the log-buying market, you would force them to buy from Canada. This would divert that important flow of Canadian lumber away from the U.S. market. That would probably have the effect of increasing lumber prices in the United States, not decreasing them.

Mr. REES. This is what concerns me. I am familiar with exporting, because I used to be an exporter. It always seems to me that, during a time of domestic production when the demand is heavy, we want to curtail exports, but once we curtail our exports during a good period it means that we do not have those exports during a bad period. I am afraid if we had an embargo with Japan that the Japanese would develop a new market in Canada and would never come back to the market in the United States. What are your thoughts about that, especially since we had a \$3-billion-a-year trade deficit with Japan?



Mr. BINGHAM. We have been very concerned about that. If you will look at what happened in the cyclical downturn in 1970-71 you will find that many of our mills, that otherwise might have closed, were able to stay in production because of the Japanese log-export market. The Japanese were buying the middle-quality logs which brought the timber on the market, and the mills were able to use the low-quality logs and produce for the domestic market. We had fewer mills forced out of production in the downturn of 1970-71 than we did during the last of the 1960's when we did not have the economic activities in the market available from Japan. I think there is a very real risk of that.

I would also comment, Congressman, that we are now moving to Japan wood chips equivalent to nearly 1 billion board feet in log form, which is a very important trade with Japan. It was material that was being burned and wasted in our forests in the West, and I think a log-export ban would interfere with a significant portion of that trade with the demand rising and would be setting a chain in motion that could be very serious to the strong need we have for exporting wood chips.

Mr. REES. I was wondering if anyone in the panel is in favor of an embargo?

I understand that Senator Cranston from my State and Senator Packwood have a bill which would call for a complete embargo of all log exports to Japan. Is anyone on the panel in favor of a complete embargo?

Mr. MARTIN. Yes, sir; we are in favor of an embargo. In fact, we would like to have an opportunity to present some statements in rebuttal to some of the remarks that were made.

Mr. ASHLEY. If time permits, that is exactly what the chairman intends, that you be able to conduct a colloquy among yourselves for the record. I think that would be quite informative.

Mr. MARTIN. We would like an opportunity to present some printed material afterward, because some of the statements made were at odds with the knowledge and the information that we have received.

Mr. ASHLEY. Any additional statements that any of you wish to submit will be included in the record.

Mr. MARTIN. Particularly with reference to the capacity of mills and the fact that they are all producing at capacity. We understand there are mills on the west coast that are closed down completely because they do not have logs. When we are exporting, when there is mill capacity and we are sending logs to Japan, we are exporting jobs and we are importing finished lumber from Canada.

Mr. REES. Well, I wish you would get the factual situation tied down as to how much mill capacity there is in the Pacific Northwest, how much mill capacity is being used at the present time, exactly how many logs are on hand, and if the actual export of logs really does keep mills from producing?

Mr. ASHLEY. Could you comment on that, Mr. Mullin?

Mr. MULLIN. Yes, Mr. Chairman.

The question really was raised as to mill capacity, and I think here you are dealing with something that is not clearly definitive but more or less is a matter of opinion—and the opinion of those who were involved at that particular time.

About a week ago, I was in attendance at a conference of the Northwest Timber Association. That is a group of Oregon lumbermen. I believe they belong to Mr. Hodges' NFPA. They met in California, and, in talking with these people, almost all of them felt that they could, in fact, increase their mill capacity on very short notice, providing they could be assured of logs in the future. They felt very, very concerned about the log supply, particularly from the National Forest Service. They did say that if they were assured of an increased log supply they would, in fact, increase their production within probably 30 to 60 days. They also said that an increased supply of logs—

Mr. ASHLEY. Did they indicate how much their production could be increased?

Mr. MULLIN. I would say that 20 percent was the average that I got around the group, by increasing 1 day of production per week, perhaps 1 hour per day, and some of them would go on double shift. It could be a significant increase among those mills, and I should say that all of those mills that were represented, or almost all of them, rely on Federal Forest Service land or the Bureau of Land Management land for their timber.

Mr. REES. Well, the Morse amendment limits the amount to 350 million board feet out of Federal land capacity. Now, what is the Federal total land capacity at the present time?

Mr. MULLIN. The U.S. Forest Service has about 187 million acres; however, about 90 million of that would be considered commercially producible forest land.

Mr. REES. Yes; I am wondering, because the Morse amendment stated it in "million board feet."

Mr. MULLIN. We also feel, and I think there are others who join with us in the feeling, that the Morse amendment, really, is not too effective in controlling substitution of Federal timber for private timber exported. You gentlemen are familiar with the substitution part of this.

Well, without going into it any deeper or making a longer statement on that subject, it seems to be ineffective in its present form, and we feel that it should be clarified and perhaps strengthened.

Mr. REES. Would that be a germane amendment to this bill?

Mr. ASHLEY. I am wondering a little bit about that.

You might want to be a little bit more specific, either now or for the record, with regard to specific proposals in that regard, Mr. Mullin.

Mr. MULLIN. I could present to you at a later date specific proposals that would cover that substitution section. We feel, to be very brief on this subject, that the exports from forest land should be reduced to zero from its current 350 million feet, and the reason for this is to stop the Japanese bidding against the American firms for U.S. forest timber. We feel there should be a very strong substitution law to keep the people from selling their own timber and then replacing it, of course, with the forest timber.

Mr. ASHLEY. Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

I find myself having somewhat mixed emotions at this particular point. We have been complaining to the Japanese about the balance-of-trade problem we have with them, and I think they are acting in good

faith in buying timber from the United States, which we want them to do.

Now, I am a little concerned about the dispute, the factual dispute, that I see developing here. If the sawmills are operating at capacity or near capacity, then, to increase their supply of logs in the Northwest region would not really solve any problem, as I understand it.

Am I to understand, Mr. Martin, that you are suggesting a total embargo, even from private lands, on logs going to Japan, or are you just talking about Federal land sales?

Mr. MARTIN. We are talking about a temporary embargo until such time the demand-supply situation gets in balance. I realize that it is a difficult thing. We are asking the Japanese to buy something in return for all we have been buying from them. But there is a—

Mr. BLACKBURN. To me there is a little bit of constitutional question involved here. I am worrying. Do you have the kind of authority to tell a private owner of timber that he cannot sell it abroad?

However, I do not want to get into that discussion.

Mr. MARTIN. The President does have that authority.

Mr. ASHLEY. He does. That is what the Export Administration Act is all about.

Mr. BLACKBURN. We might have a lawsuit to find out if the Congress has the authority to do what we try to do sometimes. Let me pursue this question.

How does the price of the finished Canadian lumber which is delivered in the United States compare with the price of lumber produced in the United States and delivered to the same market, and where is the Canadian lumber going?

Mr. MARTIN. It, basically, goes all over, but it is more inclined to go to the Northeast and the Midwest than it is anywhere else, because of freight rates and delivery.

Mr. BLACKBURN. How does it come to the Northeast, by rail or by ship?

Mr. MULLIN. Shiploads.

Mr. BLACKBURN. By ship.

Now, how does the price of that finished lumber compare, when it is delivered from Canada, with similar lumber when it is produced in the United States by U.S. citizens?

Mr. MARTIN. It is about 22 percent of the total market, so it has to find its level, depending on if we have a shortage. If we have a shortage, they do very well and their prices go up, and if we have an excess their price goes down.

Mr. BLACKBURN. Well, I am to understand, though, that it is competitive?

Mr. MARTIN. It is competitive, yes.

Mr. BLACKBURN. Now, if we terminated those Canadian imports by insisting that we buy from local producers, would that decrease the price of lumber or would that increase the price of lumber?

Mr. MARTIN. If we increased the domestic supply, over the long haul we are going to stabilize prices. This is the only industry in which prices go up relative to increased production. If you double the production of automobiles the prices will not go up as much as this. It is not cheaper by the dozen; it is one of the few commodities that is "two for a nickel, three for a dime, six for a quarter." The more you buy the higher it gets.

Mr. BLACKBURN. Obviously, it is a demand inflation that we are seeing?

Mr. MARTIN. It is a demand inflation, and our overall objective is to increase the long-range supply. We agree that the Federal forest management has to be changed; that the Office of Management and Budget should fund the money for forest management; and that the Government should take a positive approach over a foreseeable number of years and indicate that they are going to make the Federal forest lands available, within the Forest Service management recommendations, to make the timber supply available. Our facts in our survey on the west coast indicate that the capacity is not being utilized because of log shortages and that the present mills on the west coast could use about half of the amount of lumber that is being exported and handle that production.

Mr. BLACKBURN. Say they could use about half of the logs that are being exported, well, then, would we just reduce ourselves by half and would not accomplish anything as far as increasing supply?

Mr. MARTIN. We are not recommending a permanent embargo. We are recommending a temporary embargo until the supply situation gets in balance.

Mr. BLACKBURN. Well, I would feel that we would be running considerable risk to turn off the spigot entirely but to turn it back on 6 months from now, or a year from now, and expect those markets to still be available. That is one of the points. We have got to maintain some consistency of supply.

Mr. MARTIN. From a domestic standpoint, we are being asked not to do that now, just to do without it. So, it is a question of whether you take care of those at home or someone else.

Mr. BLACKBURN. It seems to me that the more practical solution would be to demand that the Federal Forest Service open up its sales more on the domestic market where they have it available, the lands and the timbers. But they are not opening up the sales adequately to meet the demand, and we have a demand inflation; so, the solution is to create more supplies by opening up the Federal forests more.

I could sit here and say, smugly, that "I told you so" to some of my colleagues, because I voted for the Timber Supply Act years ago, and it was hooted off the floor by all of our ecology groups. Well, I am hooting back at them right now.

Mr. ASHLEY. If the gentleman, before he hoots too loud—what were the figures on the diminution of the President's fiscal 1974 budget?

Is it not—who had the testimony on that? It was down substantially, was it not?

Mr. MULLIN. I did. As I recall, it was down by \$105 million, and the three items that were hit the most were reforestation, fire prevention and fire control, and roadbuilding.

Now, these three items, if you will look at them, are the three items that produce lumber or produce the ability to obtain this lumber.

Mr. ASHLEY. Well, I thank the gentleman for yielding. I just want to admonish him to temper his hoots.

Mr. BLACKBURN. Let me just say, "Do not visit the sins of the administration on my head, because"—

Mr. ASHLEY. Because your head is not that big?

Mr. BLACKBURN. Because the Timber Supply Act would have met those very needs, I think.

Mr. ASHLEY. Well, thank you, gentlemen.

Mr. St Germain?

Mr. ST GERMAIN. I would like Mr. Bingham to comment on whether or not there is, in fact, additional mill capacity in the Pacific Northwest?

Mr. BINGHAM. I think, Congressman, that we have to realize that there are two kinds of capacities. One is more hours and more shifts out of the mills that are in place and the other is new facilities. Against the historic operating posture of the mills in our two States, on the tracking we have done, these mills are operating above their rate of capacity. I am sure that the gentleman is right, that you could find an individual mill in these two States that could say: "If you put in front of us logs for the next 2 years, we will add another shift or we add some overtime."

As a matter of fact, our company, concerned about this issue because of our timber inventory in the West, 2 or 3 weeks ago made precisely that offer to the consuming industry in the two States. We said we wanted to do two things: First of all, with the demand for red cedar in the domestic market, we would divert all of the red cedar out of the export market and make it available to the domestic industry at domestic prices, and, second, we would try to bring more timber to market in front of individual mills who would assure us if we supplied them logs they would add capacity. We have had a number of inquiries from mills in the two States. As a matter of fact, we were helped by our homebuilding friends who sent out a form letter to all of our friends in the States of Oregon, and Washington, and California, I think, although we do not have much timber in Los Angeles, and asked them to tell us what they could do. We have been, in the last 2 weeks, trying to get this data collated. I, as far as I can tell, think it will not add much production in the States of Oregon and Washington. It would not significantly increase the supply.

Mr. ST GERMAIN. In other words, you are disagreeing with the 20-percent figure that Mr. Mullin cited?

Mr. BINGHAM. I guess I am. I certainly would not disagree with the tremendous opportunities to increase the supply in the States of California, Montana, and Idaho, and I do not know whether Arnold's members were limited to just the whole region or what.

Mr. MULLIN. The whole region of Oregon, but limited to that State.

Mr. BINGHAM. I think there is this legitimate problem: Any mill operator, if he had an adequate inventory, could add more capacity, but he is not doing it. But, as Mr. Mullin said, if he had an assurance that he was going to have more timber before his mill 6 months from now and he had assurance that the allowable cuts from the local forests are up to the normal level, he would be more willing to add the people and add the shift, and incur the overtime operating costs, than he is if he thinks: "Well, if I do that, I am going to be laying off the crew 3 weeks down the line."

Mr. ASHLEY. Would the gentleman yield at this point?

Mr. ST GERMAIN. Just let me say this: We have got to get this right out in the open. You are talking about logs from other than private sources. Assurance, in other words, from the Federal Government that certain steps will be taken. However, are there not private sources of logs available to these same mills? Could not private friends, private

log-producing companies, state: "Yes, we have got the logs; we will supply these logs to you for 2, 3, or 4 years?"

Mr. BINGHAM. Well, that is exactly what we have done in the two States to the limits of our ability in the operating areas. I think it is important to remember that something like 75 percent of the log supply in the State of Oregon comes from the national forests. It is a very high proportion of the total softwood.

Mr. ST GERMAIN. Actually, here is what I am trying to find out: Are there private sources available to these mills who need assurances of a continued supply for a definite period into the future?

Mr. BINGHAM. Congressman, I believe—

Mr. ST GERMAIN. Or is their only source of guarantee the Federal Government?

Mr. BINGHAM. I believe that my company is the only net seller of timber, and so that, while there is other private timber, they are using that in their own mills, and trying to buy some off the public lands. So, I think the answer is "No," that there is not additional private supply of any size available to the using mills.

Mr. ST GERMAIN. You are telling me, in other words, that your supply is not close enough to the mills in question?

Mr. BINGHAM. In Oregon, yes.

Mr. ST GERMAIN. Oregon?

Mr. BINGHAM. Yes.

Mr. ST GERMAIN. Mr. Hodges?

Mr. HODGES. I want to talk to the conflict of the 20 percent of additional capacity Mr. Mullin mentioned and the group he was talking about is in southwestern Oregon. In the whole State of Oregon, only about 12 percent of log exports originated, 82 percent originated in Washington, and the people that Mr. Mullin talked about that could expand their production 20 percent are totally dependent on Federal timber.

Mr. ST GERMAIN. There is no private source?

Mr. HODGES. Relatively none available to them. If there is, it is in scattered tracts, and maybe some railroad-owned timber.

Mr. ST GERMAIN. Nothing substantial?

Mr. HODGES. The exporters are going to buy it because they are going to pay considerably more than it is worth in the domestic market, so these people that Mr. Mullin is talking about are not in the major export area, and they are primarily all dependent on Federal timber. So these two statements here are not really in conflict.

Mr. Bingham is talking about production capacity in the Pacific Northwest, meaning the area of Washington from which 82 percent of the logs are originating. Mr. Mullin is talking about the southwestern part of Oregon.

Mr. ST GERMAIN. You know, I am told that, in order for mills to operate economically, you cannot move a log more than 150 miles. In other words, the mills should be within approximately 150 miles from the source of the log; is that correct?

Mr. HODGES. Yes, and even that is a pretty healthy distance.

Mr. ST GERMAIN. Yet you say, if we stop exporting logs to Japan, they will then go to the Canadian market. The Canadians will not sell them logs. The Canadians will only sell them finished lumber; is that not correct?

Mr. BINGHAM. That is correct.

Mr. ST GERMAIN. All right, so the Japanese can take the logs that we cannot move more than 150 miles, and move them from the State of Washington to Japan, and they find that they are better off to buy finished lumber from Canada. We in the United States—I thought we were pretty ingenious—we cannot move them more than 150 miles. You know, this does present a little bit of a problem for some of us to understand. I am not being facetious now, let's face it.

Mr. BINGHAM. I understand. It is an excellent question. The economics of ocean transportation are very, very important and it costs less to move a log in log form from Seattle to Osaka, Japan, than it does 400 miles inland from Seattle toward Montana. So, the freight per mile used is fundamentally different.

Second, the Japanese industry is a mom-and-pop industry, 25,000 small mills. They cut only two or three logs per day, and they are getting about 72 percent or 73 percent of the cubic of that log into lumber, because they do not remanufacture and plane it in the milling operation the way we do in this country. They are cutting to a whole spectrum of lumber sizes, and the combination of their lumber prices, their very high recovery of the cubic into lumber, their low labor rates, and not too much of a freight disadvantage means they can pay more for a particular quality log on the west coast than we normally can, given our domestic lumber pricing situation.

Mr. ST GERMAIN. Tell me this: As far as logs are concerned, Mr. Martin goes and he buys up  $x$  number of acres from the Federal Government, right? He then takes those logs and he sells them to Mr. Hodges who has got a sawmill. Mr. Hodges then decides not to cut his logs since if he paid a dollar a foot for this log, or whatever the price might be, and he can sell it to the Japanese for \$2 without labor costs he can make a quick profit. Can this be done? And then is that charged against the 350 million?

Mr. HODGES. That would be an illegal thing to do under the Morse amendment provisions assuming the timber was not originally designated for export sale by the Government.

Mr. ST GERMAIN. All right. Fine. Now, tell me this: Going back to the last hearing, is there a tax advantage to people, for people who export logs, rather than lumber?

Mr. HODGES. No, none whatsoever.

Mr. ST GERMAIN. All right. Taxwise, is an individual better off exporting logs than putting that log into his mill and selling it here domestically?

Mr. HODGES. Yes, there is a tax advantage for anybody exporting under the provisions of a DISC corporation. I do not think that it is significant, though, in determining whether he would export logs or not. I was trying to answer the spirit of your question, and I do not think tax advantages make any differences in the amount of timber exports.

Mr. ST GERMAIN. That also came into it at the last hearing.

Mr. ASHLEY. It would be a disadvantage in what he would be paying for taxes because the price is obviously beneficial.

Mr. HODGES. Certainly.

Mr. ST GERMAIN. On the finished product or——

Mr. ASHLEY. No, on the log.

Mr. HODGES. The price is higher, so he will make more money, but that is not governed by taxes.

On the first question you asked me about a purchaser of Federal timber selling it to somebody else for their mill, and then them not using it and exporting it, and my answer was that it would be illegal if it is not designated in the original sale as exportable.

Now, you talked earlier about a substitution provision where, if you sold it to that person, he went ahead and manufactured the log, maybe, and then exported his private logs. That would be substitution. The Secretary of Agriculture and the Secretary of the Interior, under the Morse provision, are authorized to issue regulations to prevent that. They have not issued such regulations.

Mr. ST GERMAIN. Thank you, Mr. Chairman.

Mr. ASHLEY. I am curious about the Canadian policy. Is it true that the Canadians in their trade with Japan ship essentially finished lumber as distinct from logs?

Mr. HODGES. Finished or semifinished.

Mr. ASHLEY. Do they export logs? They do not?

Mr. HODGES. Not generally. There are some logs exported, but only when they cannot be used or are not in demand in the domestic market.

Mr. ASHLEY. What is behind Canadian policy in this regard? Why is that the policy of Canada?

Mr. HODGES. It is a longstanding public policy to stimulate industrial development in British Columbia.

Mr. BINGHAM. It is principally all public timber. It is public timber owned by the Provinces.

Mr. MARTIN. The Canadians are cutting the logs up instead of the Japanese.

Mr. ASHLEY. I was just curious as to what is behind it. The fact that it is publicly held only goes further to the question that I am getting at, inasmuch as we have rather considerable public resources ourselves, and this is not our policy. Our policy, I gather, is to engage heavily in the export of logs, even during periods of short supply domestically?

Mr. BINGHAM. From the public forest, Congressman, since the Morse amendment was passed, the public policy has been in effect to keep the public timber for domestic manufacturing.

Mr. ASHLEY. Well, I am still just curious why we find it advantageous, as a matter of policy, public or private, to export logs rather than finished or semifinished products as the Canadians do. Why?

Mr. BINGHAM. First of all, the Canadians are supplying a relatively small total volume to the Japanese lumber market, and, second, it is principally in square form, not in the finished lumber form so, in effect, they are supplying a log; a square is a portion of a log for remanufacturing in Japan. I think the Canadians have been able to further their total development of British Columbia principally with the advantage of the Jones act, which has permitted them to take away over the last 10 years over a billion feet of lumber production from our Western-producing region into the northeastern part of the United States. The Canadians have, because of the \$20 freight advantage, been moving their coastal production on non-American bottoms around to the eastern part of the United States, and they have been able to increase their total manufacturing capacity by supplying larger volumes both to the east coast and then by rail to the Midwest. The total



movement of lumber to Japan is really not very large, and they have been moving about 80 percent as many logs year after year as they have lumber.

Mr. BLACKBURN. Let me inject a question right here. How much recovery do we get out of a log? I believe you mentioned the Japanese get 73-percent recovery out of a log. How much do we get?

Mr. BINGHAM. Well, with the same diameter log, and in a pretty good mill, Congressman, we would be getting about 48 or 49 percent of the total cubic, which would go into lumber, and then another 40 percent into wood chips, and the remainder into others.

Mr. BLACKBURN. Thank you.

Mr. ASHLEY. We obviously are concerned, in the light of the jurisdiction of this subcommittee, with the short-supply situation, with the administration of the Export Administration Act, with the responsiveness of the Department of Commerce; and, in this regard, I am struck by the unanimity of the panelists with respect to the fact that the mills insist on a greater assurance of supply of logs as a condition or sine qua non for increasing capacity. Now, it seems to me that what we have said here this morning is that this increase or this assurance can be forthcoming in one of two, or a combination of two, actions. First of all, we can make greater use of our public land supply, which has not been done, and there is unanimity on that. Second, we can control the export of logs, principally, of course, to Japan.

Now, I would be interested, inasmuch as there is unanimity in the panel and also in the subcommittee on the first point, so then let us concentrate on the second, because that is the jurisdiction of the subcommittee. I frankly am not convinced at this juncture that the administration of the Export Administration Act has been adroit, effective, and responsible. Mr. Bingham, I listened very carefully to your testimony. When you say that the export of logs really is not a factor or a principal factor in the skyrocketing of domestic lumber prices, I find that a little hard to accept, mainly because of the increased volume of exports to Japan during the last 6 or 8 months, and that there is no connection between this increased volume of exports and the escalating price domestically. I am going to have to have a little bit fuller explanation.

Mr. BINGHAM. Congressman, I think that is a very excellent insight. I do not know whether it is in the testimony, but what you will find is that during this period of time, when the lumber prices were dropping and the plywood prices were dropping, the export of the logs on a trend line were consistently increasing, and that actually, when we talk about the sharp increase in 1972 over 1971, we ignore the fact that we only have an 8-percent increase over 1970. We exported 2.4 billion in 1970, and we weren't terribly concerned because the domestic prices were down through the floorboard. So, if you go back, and we will for you—

Mr. REES. Was there not the dock strike in 1971? And because the homebuilders used the dock strike year as the index year, which is something else—

Mr. ASHLEY. All right. You know, everybody uses their own figures, and let me state that Mr. Bingham uses some pretty curious figures when he talks about housing production doubling. That must be on a quarterly basis.

Mr. BINGHAM. Yes, a monthly annualized basis.

Mr. ASHLEY. Well, then, you can pick out any month and do that. We use our figures for our own purposes; is that not right? I am sure I do.

Mr. BINGHAM. Mr. Congressman, I am sure you only use them objectively.

Mr. ASHLEY. Absolutely. Right.

Mr. Hanna.

Mr. HANNA. I think, along the lines that you are pursuing, that a couple of things should be pointed out. First of all, could you provide the figures, Mr. Bingham, on the relationship on the kinds of logs we are talking about? I think there is a tendency to talk about logs as if they are all the same. Could you give this committee the percentage of logs in the hemlock and in the fir that are shipped to Japan, and then give us the same percentage of hemlock and fir that are used in our local mills? If I understand the timber business at all, it would seem to indicate to me that your figures would show that a very heavy percentage of hemlock is shipped to Japan?

Mr. BINGHAM. Yes, sir.

Mr. HANNA. And that there is a very heavy percentage of fir used by our local mills, and so, if we think we are going to get a one-to-one tradeoff on this thing, we might be disabused very quickly on that score.

The other thing that I am concerned about is two things that may help us, and they may not be our jurisdiction, but might help us use our jurisdiction intelligently, and that would be with the growth.

I would like to see a graph of exactly what the responses were in the national forest program to the demand curve. It would seem to me to make a considerable amount of difference if, for instance, you found that the availability of logs out of the national forests was the same for a high-demand year as it was for a low-demand year. That would seem to me to put a terrific pressure on price.

The third thing that I would like to see would be the approach of pricing by the Federal Government. Now, I understand, and maybe I am wrong, I hope I am wrong, that one of the factors in pricing the logs at the place of acquisition from the Government is the price of lumber. If that is a factor entering into the price of logs, it would seem to me, if there was ever a situation in which the Government went against its basic policy as announced by the President to hold down inflation, this is it. If this is true, and the Government is not cutting with any relationship to demand, and then pricing the log on what is happening in the lumber market, then we have lost the necessary rational basis for such pricing and I want to know if that is what is going on.

It seems to me there is nothing that this committee can do about this problem if we cannot do anything about that kind of policy approach. Do you understand me, Mr. Chairman?

Mr. ASHLEY. I understand you. I do. But I think that Mr. Martin might have a response, if that is agreeable at this time.

Mr. HANNA. Yes, that is agreeable.

Mr. ASHLEY. Mr. Martin.

Mr. MARTIN. The other thing that worries us about going in two different directions that are hurting us is the average export for the

4-year period from 1968 to 1971 was 2.4 billion board feet, and in 1972 it was 3.05 billion board feet, which was an increase of 25 percent at a time when we were raising our production level an average of 33 percent.

Mr. BLACKBURN. You are talking about lumber or logs?

Mr. ASHLEY. Logs into feet.

Mr. HANNA. But, Mr. Martin, you know we are politicians here, and certainly we ought to be aware of the political facts of life; the announcement politically in the United States was we were going to move up the production of housing to something over 26 million yearly units. At the same time, in Japan, Mr. Tanaka just announced that he was finally going to be responsive to the great demand of housing in Japan. There is no magic. I am not surprised that the demand for lumber went up so high in Japan, because they reacted exactly the same way as the construction industry reacted in the United States. If they are going to have a long-term program of housing in Japan, which I think they are going to have, and if we are going to remain committed to a high construction drive in the United States, which I think we are, then we had better start thinking very seriously about how we put these two equations together. What is going to be the demand from Japan, what kind of logs are they going to take, what competition does this suggest, and what do we need here?

Then we can work out a program that would answer the mills' requirements. I would not want to be putting in new saws and everything else, if I could not amortize them, for a 1-year shot. Who wants to go that route?

Mr. MARTIN. One thing I would like to submit, if I may, Mr. Chairman, for the record, is a survey we have from Washington, Oregon, and California, of mills that are within shipping distance of logs, as what they could do about increasing their productive capacity. It just came in.

Mr. HANNA. What kind of logs?

Mr. MARTIN. Private.

Mr. HANNA. There are three kinds of sellers in at least two major kinds of logs. There is the private seller, the State seller, and the Federal seller; right? Then there is the hemlock and the fir.

Can you give us those, and that might help on what they might buy and from what kind of logs they might buy. Is that in there?

Mr. MARTIN. This is if logs were available to these mills for purchase from public and/or private mills. There are 102 mills reporting in Washington, Oregon, and California. By increasing to a 6-day workweek, by adding another shift with no more capital expenditures, and by other methods, we have what percents they could increase their capacity with no more capital expenditures. The lumber capacity could be increased in the three States 40.2 percent. These are 102 mills reporting out of 347 surveyed, and the plywood capacity in the three States could be increased 15.3 percent.

Mr. ASHLEY. If there was an assurance of supply?

Mr. MARTIN. If there was just a supply available right now.

Mr. ASHLEY. If there was assurance of supply, there might well be additional investment?

Mr. MARTIN. Yes, and this is without additional investment.

Mr. ASHLEY. Never mind the extra hour a day, or shift, or what have you.

Mr. MARTIN. This is without investment, and to meet current situations. In other words, if you have a market for your product, and you want to sell it, they would add extra shifts in order to increase their profits.

Mr. ASHLEY. Mr. Rees.

Mr. HANNA. Could we have that submitted to the record?

Mr. ASHLEY. Yes, surely, of course.

[The following document, "Survey of Operating Capacity at West Coast Lumber and Plywood Plants," was submitted for the record by Mr. Martin:]

SURVEY OF OPERATING CAPACITY

AT

WEST COAST LUMBER & PLYWOOD PLANTS

MARCH 1973

Sponsored by: Home Builders Association of Metropolitan Portland  
3140 N.E.Broadway, Portland, Oregon

Analysis by: Hal Mayhew, Forest Products Analyst  
Herron Northwest, Inc.  
1900 Georgia-Pacific Building  
Portland, Oregon

SUMMARY

A survey of lumber and plywood plants in Oregon, Washington and California in late February and early March 1973 revealed that production could be increased by a substantial margin if sufficient logs were available.

Returns from 102 sawmills had been received by March 16 out of a total of 347 mills surveyed. Out of this total, 54 plants indicated that they were running one shift, or not operating at all. Close to 75 percent of the mills surveyed indicated that they could increase production by means of 9-hour shifts or 6-day weeks if logs were available. The 54 plants running at less than two shifts indicated that sufficient labor was available in their areas to add shifts if raw materials were available.

The sawmills replying to the survey indicated they could increase their production by about 40 percent, or close to 148 million board feet per month, with an adequate log supply. The mills reporting had a current production of slightly over 367 million board feet per month. By combinations of extra shifts and longer work days and work weeks, the mills indicated they could produce 515 million board feet per month.

Translated to a yearly basis, the reporting mills were producing at a yearly rate of 4.39 billion board feet. With an adequate supply of logs they could increase this total to approximately 6.18 billion board feet per year. The gain of an estimated 1.7 billion board feet per year would significantly relieve shortages of lumber in the area.

Plywood mills reporting to the survey were operating at closer to rated capacity, or a three shift-five day basis. The 30 mills replying, however, indicated that they could increase production by about 15 percent by combinations of 6-day weeks, 9-hour days and additional shifts. The reporting mills had monthly production of close to 288 million square feet, 3/8-inch basis. With an adequate log supply they could increase production by 45 million square feet, bringing total monthly production to 333 million square feet per month.

On a yearly basis, the reporting plywood mills could add production of approximately 535 million square feet, 3/8-inch basis, if sufficient logs were available.

PURPOSE

The survey was conducted to determine whether log exports from the West Coast were causing domestic mills to operate at less than peak capacity. An estimated 2.78 billion board feet of logs were exported from the Pacific Coast in 1972, mostly to Japan. These exports originated largely in Washington, Oregon and California. Existing state laws in Alaska prohibit log exports except for minor species such as Alaska Cedar.

There are no industry statistics available to our knowledge to indicate the operating capacity of West Coast sawmills on a weekly, monthly or even a yearly basis. In the case of plywood, however, the American Plywood Association publishes weekly statistics indicating the operating capacity of the plywood industry, and the ratio of production. The American Plywood Association defines capacity as three shifts, five days per week.

The purpose of the survey, then, was to determine facts on lumber operations not available from any source, and to determine whether plywood production could be increased beyond the capacity figures reported by American Plywood Association.

SCOPE OF SURVEY

The mill capacity survey was mailed to 347 lumber operations and 107 plywood operations in the three-state area; using as a source the directory "CROW'S BUYERS AND SELLERS GUIDE". This publication has been in existence for close to 50 years and is regarded as a reliable directory in its field.

The questionnaires were mailed to operations in the areas most likely to be affected by the sale of export logs. This included the manufacturers of lumber and plywood in the areas West of the Cascades, and to certain areas on the east slope of the Cascades where there was a proximity to ports where logs were being exported. The questionnaires were not sent to manufacturers of Cedar shingles and shakes, or to veneer manufacturers.

The first questionnaire was mailed to mills on February 12, and a follow-up was mailed on March 6th.

QUESTIONNAIRE

The questionnaire was worded to determine present production rate in terms of operating days, weeks and shifts; to determine actual monthly production at this time; and to determine what could be produced if an adequate supply of logs were available at prices compatible with the domestic market.

The mills were also asked whether they could continue to operate under present log supply conditions.

The questionnaire was worded to determine if production could be increased with the present work force by additional hours of production, or additional work days. The question was also asked whether there was sufficient labor available to add production shifts where mills were not operating at full capacity.

It was recognized that the price of logs was as much a determining factor as their availability in some areas. Prices paid by log exporters in recent months have in many areas been well above the levels which domestic sawmills and plywood plants could pay and still operate at a profit. Hence the questionnaire was worded to determine what the operations could produce if logs were available at prices compatible with the domestic market for their finished products.

#### TYPE OF RESPONSE

Replies from lumber operations were received from companies with monthly production ranging from 400,000 board feet to 12.6 million board feet. Plywood plants replying to the survey had production from two million feet per month to 17 million feet, and included some of the largest integrated operations.

#### RESULTS: LUMBER

Replies from lumber operations indicated that production could be increased substantially by additional shifts as well as added work days and hours. Less than half of the respondents were operating at capacity, which is generally regarded as two shifts, five days per week, in the lumber segment.

Working shifts. Out of the 102 replies in the lumber category, 54 plants were running one shift or less. All 54 of these companies said they could add production by additional shifts if logs were available. The balance of the respondents were running mostly on a two-shift, five day basis.

Additional days and hours. On the subject of additional production by 9-hour days and 6-day work weeks, about three-fourths of the companies replied that production could be increased in this manner. Out of the 102 returns, 73 said they could increase production by a 6-day week, and 74 indicated they could operate on a 9-hour work day if logs were available. The gain in production by added days and work hours was not as



pronounced as the gain from additional shifts, but a gain of about 15 percent was attainable in this manner.

Footage. The 102 mills replying had monthly production of 366.5 million board feet at the present time. By all methods of increased production, including additional shifts and work schedules, the mills indicated they could produce an additional 147.4 million board feet per month. This amounts to a net gain of 40.2 percent for the mills replying to the survey.

It is recognized that this 40.2 percent gain could not be applied to mills not replying to the survey, hence no effort has been made to expand these results to an industry-wide basis. The footage gain from the 102 mills replying is substantial, however, and indicates a substantial degree of unused capacity. Out of the 54 plants not running two shifts, 30 were in Oregon, 15 in Washington and 9 in California. One of the plants, Seattle Cedar Lumber Manufacturing Co., revealed through the survey that it was closing indefinitely for lack of logs.

#### RESULTS: PLYWOOD

Plywood plants replying to the survey were running at close to capacity, but through a combination of methods the 30 mills could increase production by 15.5 percent if sufficient logs were available.

Added shifts. Because some departments in any given plywood operation may be operating two shifts while others operate three shifts, the results of this part of the survey are not as easily defined. Most of the 30 plants were running three shifts in at least a part of their operations, but a total of 6 shifts could be added with available logs. A gain in production of 5 percent could be achieved in this method.

Additional days and hours. On the question of the six-day work week, 17 of the 30 plywood plants said they could add production in this method if logs were available. Only 4 indicated that they could add production by a 9-hour day.

The survey, as it applies to plywood, appears to substantiate the American Plywood Association statistics which show production at close to 100 percent of the rated capacity on a three-shift, five-day basis. If production is to be substantially increased, the six-day work week would be required, and at least 17 plants indicate that this could be done.

CONCLUSION

The survey indicates that there is a substantial amount of capacity in the lumber industry on the West Coast not being utilized because of log shortages. In plywood, the survey shows that a substantial gain in production could be achieved only through the six-day work week.

The respondents have indicated that they could produce an additional 147 million board feet of lumber and 44 million square feet of plywood on a monthly basis if the logs were available. Expanded to a yearly basis, this amounts to some 1.7 billion board feet of lumber and 535 million square feet of plywood.

The total volume of logs being exported, or approximately 2.78 billion board per year, could not immediately be utilized by the lumber and plywood plants replying to this survey. Allowing for conversion of log scale to lumber and plywood footage, it appears that approximately one-half of the total exports could be utilized by existing operations. Assuming that mills not replying to the survey are operating at close to rated capacity, some additional capacity would need to be built to completely utilize logs now being exported.

The approximate total of 1.7 billion board feet of lumber which could be processed by the mills replying to this survey is substantial, however, in terms of production in the area. Western Wood Products Association has estimated 1973 production for the Coast region as 8.6 billion board feet. A gain of 1.7 billion board feet, if it could be achieved by increased log supply, would represent better than a 20 percent increase in the supply from this area.

## MILL CAPACITY SURVEY: LUMBER

	<u>Washington</u>	<u>Oregon</u>	<u>California</u>	<u>Total</u>
Mills reporting:	28	45	29	102
Mills operating one shift or less:	15	30	9	54
Current monthly production:	75.8MM	161.2MM	129.5MM	366.5MM
Could work 6-day week:	20	32	21	73
Could work 9-hour shifts:	19	31	24	74
Monthly production which could be added by above means:	10.4MM	24.5MM	21.8MM	56.7MM
Percent increase:	13.7%	15.2%	16.8%	15.4%
Could add another shift:	14	28	12	54
Production which could be added by additional shifts:	16.9MM	52.6MM	26.6MM	96.1MM
Percent increase:	22.3%	32.6%	20.5%	26.2%
Production which could be added by all available methods:	27.0MM	73.4MM	47.0MM	147.4MM
Percent increase:	35.6%	45.5%	36.3%	40.2%

Approximate gain possible per year: 147.4 x 12 = 1,769,000,000

## MILL CAPACITY SURVEY: PLYWOOD

	<u>Washington</u>	<u>Oregon</u>	<u>Calif.</u>	<u>Total</u>
No. of mills reporting:	8	17	5	30
Current monthly production:	71.0MM	191.2MM	25.3MM	287.5MM
Could work 6-day week:	5	8	4	17
Could work 9-hour day:	2	2	0	4
Monthly production which could be added by above means:	10.9MM	18.0MM	3.1MM	32.0MM
Percent increase:	15.4%	9.4%	12.3%	11.1%
Monthly production which could be added by extra shifts:	3.5MM	3.3MM	8.8MM	15.6MM
Percent increase:	4.9%	1.7%	3.5%	5.4%
Production which could be added by all available methods:	11.4MM	21.3MM	11.9MM	44.6MM
Percent increase:	16.1%	11.1%	47.0%	15.5%

Approximate yearly gain possible:

44.6MM x 12 - 535,200, 000 square feet

Mill capacity survey: plywood

This survey is being made to determine if there is a substantial amount of plywood capacity not being utilized at this time because of the log supply situation. We urge your cooperation in filling out this questionnaire to determine what is now being produced, and what could be produced if sufficient logs were made available.

What is your present production, 3/8-basis, per month? \_\_\_\_\_

Please define your present rate of production:

No. of shifts \_\_\_\_\_ Days per week \_\_\_\_\_ Hours per shift \_\_\_\_\_

Under present log supply conditions, how long do you feel you can produce at the present rate? \_\_\_\_\_

This portion of the survey is to determine how much you could increase production over the short term, assuming an adequate supply of logs at prices compatible with the domestic market, and assuming a continued high rate of demand.

With your present labor force, could you add production by one or more of the following methods:

Six-day week: Yes \_\_\_\_\_ No \_\_\_\_\_ Nine-hour day: Yes \_\_\_\_\_ No \_\_\_\_\_

About how much production per month could you add? \_\_\_\_\_

If you are not running at capacity, do you feel there is a sufficient labor supply in your area to add another shift? \_\_\_\_\_

Yes \_\_\_\_\_ No \_\_\_\_\_

If your answer is yes, approximately how much production per month could be added by the additional shift: \_\_\_\_\_

Through all combinations of extra work days or hours, and additional shifts, how much do you feel you could produce per month: \_\_\_\_\_

Name and address of your company \_\_\_\_\_

Plant location: \_\_\_\_\_

Signed \_\_\_\_\_ Title \_\_\_\_\_ Date \_\_\_\_\_

Your cooperation is very much appreciated. Please return this questionnaire immediately to:

Home Builders Association of Metropolitan Portland  
3140 N.E. Broadway  
Portland, Oregon 97232

Mill capacity survey: lumber

This survey is being made to determine if there is a substantial amount of sawmill capacity not being utilized at this time because of the log supply situation. We urge your cooperation in filling out this questionnaire to determine what is now being produced, and what could be produced if sufficient logs were made available.

What is your present 8-hour capacity? \_\_\_\_\_

What is your approximate monthly production now? \_\_\_\_\_

Please define your present rate of production:

No. of shifts \_\_\_\_\_ Days per week \_\_\_\_\_ Hours per shift \_\_\_\_\_

Under present conditions, how long can you produce at this rate?

\_\_\_\_\_

Do you have any production units which are now idle because of log supply problems? If so, what is their 8-hour production capacity?

\_\_\_\_\_

This portion of the survey is to determine how much you could increase production over the short term, assuming an adequate supply of logs at prices compatible with the domestic market, and assuming a continued high rate of demand.

With your present work force, could you add production by one or more of the following methods?

Six-day week: Yes \_\_\_\_\_ No \_\_\_\_\_ Nine-hour day: Yes \_\_\_\_\_ No \_\_\_\_\_

How much production per month could you add in this manner? \_\_\_\_\_

If you are not running at capacity, do you feel there is a sufficient labor supply in your area to add another shift? Yes \_\_\_\_\_ No \_\_\_\_\_

If your answer is yes, about how much production per month could be added by the additional shift?

\_\_\_\_\_

Through all combinations of extra work days or hours, and additional shifts, how much do you feel you could produce per month? \_\_\_\_\_

Name and address of your company \_\_\_\_\_

Signed \_\_\_\_\_ Title \_\_\_\_\_ Date \_\_\_\_\_

Your cooperation is very much appreciated. Please return this questionnaire immediately to:

Home Builders Association of Metropolitan Portland  
3140 N.E. Broadway  
Portland, Oregon 97232

**Mr. REES.** Let me just ask one question. **Mr. Martin:** The prime rate just went up a half point, and the demand to the European nations last week was we run the prime rate up to bring more dollars back, and the President has just cut most of the housing programs out of the Federal budget; there is a moratorium. Your houses, without this type of help, are going to be priced out of the market. so are you still expecting homebuilding to be increasing? You know, when the prime rate goes up, of course, it means you are going to have to fight for that long-term buyer?

**Mr. MARTIN.** Our rate last year was 2,400,000, and with the cutback in the Government-sponsored programs, we have had no economists that predicted the starts go much below 2 million.

**Mr. ASHLEY.** When did they predict?

**Mr. MARTIN.** Well—

**Mr. ASHLEY.** Current predictions?

**Mr. MARTIN.** In the last 90 days it has changed, but there is still no prediction of under 1.9 million, and that would be affected by the availability of lumber and so forth.

**Mr. ASHLEY.** To follow on Mr. Rees' question, if we are obliged to rely primarily on monetary policy to curb inflation, which means high interest rates, curtailment of capital plant expansion, housing, and so forth; in other words, given the situation that we faced in 1969 and 1970 when he relied upon monetary policy almost exclusively, and absent assisted housing other than what is in the pipeline, you still say that the predictions would be not less than 1.9 million?

**Mr. MARTIN.** Yes, sir. The moratorium cutback is supposed to affect about 65,000 section 235 units and about 75,000 Farmers Home Administration units.

**Mr. ASHLEY.** This year?

**Mr. MARTIN.** This year, and for the next 3 years, so these two items make—

**Mr. ASHLEY.** For the next 3 years, you say?

**Mr. MARTIN.** Yes.

**Mr. ASHLEY.** No, Mr. Martin—

**Mr. MARTIN.** No, it gets worse. The following year it is 200-some-odd-thousand units, and the year after that about 300,000 units. But, in this particular year you are talking about, 150,000 units off of a 2.4 million production. So, we had cranked in the cutback of the moratorium and some softness in the rental market.

**Mr. ASHLEY.** We are looking at a demand situation.

**Mr. MARTIN.** But, if Mr. Rees is asking the question as Secretary Butz says, if people stopped eating so much food, prices would come down, that if we were to stop building so much then there would be an availability of lumber, that is true.

**Mr. REES.** I was asking you about your prediction—

**Mr. ASHLEY.** I have never seen the price of housing come down. That is not the same thing.

**Mr. MARTIN.** I said the demand for lumber would come down.

**Mr. REES.** I was asking you about your projections for housing, because when times are good, and there is too much money outstanding—and the Feds have been producing more money the last year—the tendency then is to start restricting, and you restrict at a time when demand for plant expansion is very heavy. You know

this, you are a homebuilder—during good times you do not do very well, and during bad times you can get the long-term money. You are very cyclical in your business. I was wondering if you are starting to go into the countercycle now, especially with the help of the administration on 235 and 236 public housing.

Mr. MARTIN. I agree with Mr. Bingham that one of the answers to overall production and the availability of lumber is that we have a stable housing production. It is pretty well agreed that 2 million units would be a stable quantity of housing in the foreseeable future. There is no reason that we should produce less than 2 million units in this country. Any attempt by anybody, by the use of fiscal devices, to cut the production below that, would be doing an overall long-term damage to the housing needs of the people of this country. This would force the cost of housing up, because every time you have to recycle and get leadtime to go again, as you had to in 1959, 1963, 1967, and 1970, every time you had one of those housing dips, you had people who went out of the construction business. You had plumbers who went out of the plumbing business. When the production steps up again, you have got to train a whole new bunch of people to produce, and it is costly and inefficient. I certainly hope that this administration does not try to cut the production of housing down to stem the tide of inflation.

Mr. REES. Well, they are making a good start.

Mr. ASHLEY. Well, I share your hope. I do not share your apparent optimism, I must say. I mean, what we are saying is, as a matter of public policy, that we will seek to curb inflation by allowing the private sector to do the thing usually inhibited, but we will come down very hard on public expenditures, and on balance, a deflationary public-spending policy, inflationary private-spending policy will produce some kind of stability to trade off and produce some stability. I do not think Dr. Burns thinks this is going to work, and I certainly do not think that it will. We are either going to have an increase in taxes or we are going to have a very strict monetary policy; and, in either event, you are pricing out hundreds of thousands of potential homebuyers. So, I just take a little different view than you do.

Mr. Mullin.

Mr. MULLIN. I think that we are probably all agreed that a monetary policy, a strict one, will delay the problem, without question. But, I do not think it will eliminate it. I think we have a long-term problem here that we have got to face. It is going to be with us for a number of years.

Some time ago, and if my memory serves me correctly, about 1968, the Federal Government made a prediction on the number of homes that would be needed during the next 10 years, quite a healthy projection, and perhaps they were overly optimistic, and it still would indicate we have that number of homes to be built.

Mr. ASHLEY. Twenty-six million new or rehabilitated homes in a 10-year period.

Mr. MULLIN. I go back to the same problem, and you have stated it, that you have to increase supply of logs. I think if you have an assured increase in supply, you are going to have a short-term increase in production, by increasing man-hours, putting on an additional shift.



I think, with that assured supply, you are going to have an increased investment in plant and equipment, as well as a long-term increase in production on a normal work basis.

Mr. ASHLEY. I think the point is well taken, and I am not going to belabor the demand side of it except to say there is the long-range kind of demand. We say that we need as a society 26 million new and rehabilitated homes. There is always the effective demand, which is, of course, determined by monetary, fiscal policy, wage constraints, export constraints, and so forth.

Mr. HANNA. Mr. Chairman, if I may, in direct relationship to our interests, which is the Export Control Act, it would seem to me that it is very important that we understand not only what we cannot do, which I think we have been talking about, but what we can do.

I do not know that we can act intelligently on the utilization of the Export Control Act on logs unless we understand how that market works and how it really affects our availability of lumber. Now, it seems to me that there has to be a very clear presentation to us by those who are in a position to know precisely what effects we could really expect if we utilized some kind of restraints on exports. If, as a matter of fact, the problem lies somewhere else, we ought to be looking somewhere else. If, as a matter of fact, there is a market for hemlock abroad, which does not exist at home, it would seem to me rather fruitless to put restraints on a marketable commodity that would have no impact on our local situation.

I am, however, very interested in knowing what the real situation is in the exports, how much are we exporting logs that do come into the competitive market and, also, I am rather interested in how the decisionmaking of cutting and marketing of the private sector interfaces with the decisionmaking and the cutting and so on of the State and the Federal. Now, if my information is correct, the States of Oregon and Washington are responding much more intelligently to marketing and management which this new demand is bringing than is the Federal Government, and the Federal Government still is very highly supervised in its forests, but poorly managed or oriented to any marketing concepts.

Now, I would like to have the panel respond to that presentation.

Mr. Bingham?

Mr. BINGHAM. If it is all right with the chairman, I will try to take on part of it in kind of reverse order.

First, I think it is fair to say that the intensity of reforestation practiced on the national forests is a public disgrace. We are not doing the job of reforesting the national forests that we ought to be. If we take our own company as an example, we own one-twentieth as much commercial forest land as the Federal Government; we cut about one-sixth as much timber; and we are planting more trees this year than are being planted on the entire national forest system. So, you can start there, that the intensity of reforestation practices on the national forests are not up to standards.

Second, we are calculating the sustainable harvests from these forests at least 2 centuries out of date. They are not looking forward to what the land will grow if you brought them under good management, and they are not doing a good job across the system of utilizing the volume from each acre. So, I start with a very firm conviction that there is a tremendous opportunity to improve management and utiliza-

tion, and the total volume of the national forests. You cannot do that by foreclosing markets, however. You have got to have markets for wood or you cannot utilize any forest services.

Third, the States of Oregon and Washington are quite different. Both States got sections of land, Congressman, as a condition of admission to statehood. Most of the Oregon lands either were sold in fee or most of the timber was sold, so there really is not a significant public supply of timber in the State of Oregon.

In the State of Washington, on the other hand, they retained virtually all of the lands they were granted when they were admitted into the Union. It has done in the last decade a marvelous job of managing those lands for recreation, for park needs, for fishing, and for the production of wood. The reforestation processes and the amount of planning, thinning, fertilizing, immediate reforesting of the lands in the State of Washington, is a national example, and they have done a very, very good job. They have been helped immeasurably in the past 10 years by a strong market for the white wood species available from those lands. As a matter of fact, their total volume in 10 years harvest has increased about 46 percent from the same number of acres every year, and it is something that the committee ought to look into because it is a marvelous job of managing a public resource.

I think in the private sector it varies between the balance of the inventory and the mills' installed capacity. But, basically, the private sector has been stimulated a great deal to increase the rate of reinvestment in growing the second crop by having all markets available, and in our own case, our rate of expenditures for reforestation have increased 10 times in the last 5 years in these two States, largely attributable to the fact that we have had the export chip market available for a lot of the low-grade material that we were previously burning, and we have had this very strong white wood market for the middle-quality hemlock, spruce, and true fir species in Japan. It has made a major difference in our ability to intensify the reforestation and management practices on these lands.

I have tried to indicate in the written testimony the improvements and utilization per acre that have taken place in our lands in the two States as we have been able to respond to this market. I think the Japanese are principally interested in the white wood species, and again, going back to our experience in 1962, 59 percent of the hemlock harvest from an acre in our tree farms in Washington was put into wood chips. We did not put it into lumber or plywood, we put it into wood chips. Now, only about 8 or 9 percent goes into wood chips, and it is finding a much higher economic use in the Japanese market. The Japanese are first interested in white woods. They are, second, because of the freight costs and moving bulky materials long distances by ocean carriers, interested in sound wood. And, third, the size of their mills limits them pretty much to a middle diameter of wood from about 12 to 28 to 30 inches. So, they are interested in white woods, sound wood, and a middle-diameter wood.

The trees do not grow in that shape, you know. The trees start out and they taper. They have defects in the stumps. and they have got knots in the top, and so that every unit of wood that is brought out for the export market has brought along with it a substantial quantity of wood available to serve the domestic market, and this is why nobody

wants to examine the facts. But, the lumber production in the State of Washington has increased faster in 1972 than did the national average of lumber production increase. Why? We had a strong export demand, we had a strong domestic demand, and we were able to serve both markets from that State.

I think we have got to examine the long-term need of the Japanese. Fir is going more into their construction industry, into industrial construction, and in some construction for their homes. White woods will go more into finishing. The Japanese, fortunately, have not discovered paint, and they use the wood exposed in its natural surface, and they are esthetically interested in wood as a decorative material in furnishing their homes. They have a very strong preference for wood. They have reached the point, however, where their own forests can no longer supply their needs. They have half as many people as we have; they have only one-tenth the amount of commercial forests that we have in this country.

In 1970, as the result of the overcutting during the war, as the result of the overcutting that was fostered by the McCarthy regime after the war, the Japanese reached a point where they cannot increase the domestic supply of wood 1 unit, and they forecast that they cannot for a 10- to 20-year period get any more wood from their own domestic forests. That means that every unit of wood-based products that they need has to be imported and, with an economy going at any rate you want, 8 or 12 or 6 or whatever percent, the incremental percentage of demand, all of which must be imported either as pulp, paper, plywood, chips, logs, then it all has to come in, and there is a very strong long-term demand for wood. They look around the world, and they say: "Where can I get it?" They are getting some from Siberia, but there are production restrictions there due to weather conditions, and they get some from Australia and New Zealand, but they are not very large sources. Some products are furnished from Canada, and some softwood from the Pacific Northwest. I think if we present the data to you, Mr. Hanna, which we will be glad to do, we will find there is a long-term important market, and we will find that the challenge to the industry is to open up the public forests and to improve the utilization on every acre we are using, and to take advantage of that market, and not to constrict the market flow that we have.

Mr. ASHLEY. Mr. Mullin.

Mr. MULLIN. Mr. Chairman, I am going to have to ask to be excused. I have, apparently, a live television program that I must appear on.

Before I do leave, I would like to commend the people from Weyerhaeuser. We do know about their reforestation program and we feel it to be just simply outstanding. If the Federal Government could adopt something like that, it would greatly improve our entire situation.

We also commend them for their very genuine offer to sell to other lumber producers logs that they own, and that they grow in their own forests.

To sum our position up, we would suggest that the allowable export of Federal timber in round log form be reduced to zero, and we would strongly recommend a very stringent substitution law that could and would be enforced.

Mr. ASHLEY. Thank you very much.

Mr. BLACKBURN. Let me ask one quick question. How much agreement is there about this 150-mile transportation limit? The statement has been made that you cannot transport lumber more than 150 miles.

Mr. MULLIN. I plead ignorance. I do not understand that part of the situation.

Mr. BLACKBURN. Is there agreement or disagreement?

Mr. MULLIN. No.

Mr. MARTIN. I plead ignorance.

Mr. HODGES. 150 miles for hauling logs is a reasonable limit. There are going to be people who exceed that under unusual conditions.

Mr. BLACKBURN. That is an important thing, I think.

Mr. HANNA. Mr. Blackburn, I will tell you how you can put that in perspective. The Kaiser people have a steel mill in Fontana in southern California. They have an iron ore mine in a place called Eagle Mountain, which is right on the border of California and Arizona and Nevada. The Japanese can ship or pick up in Australia in their large tankers in this new form and deliver it to the mills at the waterfront in Tokyo cheaper than the Fontana people can bring their own ore by rail, still within southern California, you might say, on the border of these three States. And shipping it to Fontana, their price is slightly above that which on the ton basis can be delivered to Tokyo, so there are some things that would really boggle your mind about this ocean shipping simply because of the volumes by which they can now carry, and the very low price that there is for shipping by bottoms.

Mr. ASHLEY. Mr. St Germain, do you have anything else?

Mr. ST GERMAIN. No.

Mr. ASHLEY. Gentlemen, the legislation before us, with which you are familiar, seems to accomplish several purposes. One of those purposes is to restore authority within the Department of Commerce essentially to impose export restrictions where such restrictions appear to be indicated by short supply domestically. As you know, last year, amendments were adopted which had the effect of exempting agricultural products and hides from the Export Administration Act.

Mr. Bingham, don't you think that authority should be restored? What I am really asking is, do you trust this or future administrations to look ahead, which the legislation before us would require?

Mr. BINGHAM. Mr. Chairman, I start with a very deep conviction that they have been talking about timber famines and shortages in this country for 200 years, and they have been wrong every time; and that the energy and the intelligence of the administration ought to be directed toward doing a better job of managing the total resources, and bringing the wood to market that is rotting in the forests; and I tend to feel that if we were to do that, Mr. Chairman, we really are addressing the wrong issue at the wrong time and the wrong place.

Mr. ASHLEY. I was going to say that I am somewhat sympathetic to that expression. I am really not. But, I understand it. You are saying that the ultimate result of this legislation might be to encourage the administration or a future administration to come down hard on exports rather than addressing itself to better utilization of public resources. Is that, in effect, what you are getting at?

Mr. BINGHAM. Yes. I am concerned. I would be concerned, Mr. Chairman, that we focus on the short-term crisis problem that we have rather than getting on with the long term.

Mr. ASHLEY. Well, I have got to say that is a possibility, and I must say that, because that has been the track record; has it not? What do you think, Mr. Hodges?

Mr. HODGES. I think that is an approach that would be good to have in your bag of tools. It would be one that the Government should use as a last resort, or use temporarily during a time when there is some violent disruption of the commodity market. Naturally I agree with Mr. Bingham that it tends to be a negative approach when you consider the amazing amount of timber inventory that we have in this country that is mismanaged, and when you consider the amazing amount of most productive land you can imagine, that is also being mismanaged, so we want to see the positive approach.

Mr. ASHLEY. But, with this negative addendum which would provide, under extreme situations, which obviously are anticipated in the legislation.

Mr. HODGES. I agree with that.

Mr. ASHLEY. Yes. I appreciate that comment.

Mr. Martin, what would you say?

Mr. MARTIN. Well, I think we seem to all be in agreement as to what the long-term solutions are. They are proper forest management, and the availability of the supply for a long-term sustained production to meet our housing needs and other needs in the country. We are also not for a permanent embargo on the exporting of logs or anything else, but on a temporary basis in order to take the steam out of this situation. We have hundreds of builders coming in here tomorrow for a crisis march. They have people who have foundataions and slabs in, and they have no lumber coming in, and they are going to sit there.

Mr. ASHLEY. I was amused and delighted to see that the National Associaation of Home Builders has taken a leaf out of the civil rights and the women's lib and other selected groups that find it advantageous to march on Washington.

Mr. BINGHAM. Mr. Chairman, you might be interested to know we have some Indians in the State of Washington——

Mr. ASHLEY. I did not mean to slight you.

Mr. BINGHAM. They will be right behind him if Mr. Martin succeeds.

Mr. MARTIN. The point is, to those people it is a personal crisis where they have no materials to complete houses. They have contracts and they have organizations that are without raw materials with which to produce. We're asking that something be done to alleviate the situation on a temporary basis, on an immediate basis. The increased availability of lumber from Federal forests, and the cessation of the shipment of logs to the Japanese would be one step in a series of actions that we are recommending.

Mr. ASHLEY. So what you are saying is that you support the legislation, I believe, with the suggestions that were contained in your testimony, but you really do not think that it goes far enough?

Mr. MARTIN. Yes, sir.

Mr. ASHLEY. But you support it, at least as far as it goes.

So does Mr. Hodges.

Mr. Bingham does not. Mr. Bingham, I will be happy if you will rethink your position and submit any supplemental views that you may wish. Like our very distinguished chairman of the Ways and Means Committee, I do not like to report out measures that I have introduced unless there is unanimity.

Mr. BINGHAM. As in all great conventions, I will change my vote.

Mr. ASHLEY. You are very kind. On that note the subcommittee will stand in recess until 2 o'clock this afternoon.

[Whereupon, at 12:25 p.m., the hearing was recessed, to reconvene at 2 p.m. this same day.]

#### AFTERNOON SESSION

Mr. ASHLEY. The subcommittee will come to order.

We are meeting this afternoon to continue hearings and to receive further testimony on H.R. 5769 and related matters.

Our panel this afternoon is comprised of Arnold Ewing, executive vice president, Northwest Timber Association; Wayne Gaskins, Western Forest Industries, Portland, Oreg.; and Alec Jackson, president, Greenacres Consulting Corp., Bellevue, Wash.

Mr. Jackson, would you care to lead off this afternoon?

Mr. JACKSON. I would be delighted to lead off.

#### STATEMENT OF ALEC JACKSON, PRESIDENT, GREENACRES CONSULTING CORP., BELLEVUE, WASH.

Mr. JACKSON. I am here to speak on behalf of the Washington Citizens for World Trade, which is a broadly based group interested in international trade, not just exports.

We have wide representation from various other groups. For example, the Washington Association of Public Ports, the League of Women Voters, the Washington Education Association, the Washington Farm Forestry Association, the Washington Association of Business, the National Maritime Union, AFL-CIO, the State of Washington, the Mayor's Marine Advisory Committee of Seattle, to name a few.

I am not even going to try and summarize the testimony that I have submitted in written form. I would like to try and relate it to the log export situation as it exists.

Mr. ASHLEY. Your full statement will appear in the record.

Mr. JACKSON. In the United States, we are not running out of trees, we are not running out of wood. However, all is not well in the forests. Much of the testimony this morning was devoted to some of the things that are wrong with our forests, particularly the forests in the public domain. I am not going to go over that again.

Currently, as a nation, we are not harvesting the full quantity of wood that our forests are growing. This is at the national level. In fact, our inventory, our reserve, our reservoir, of timber for the future is growing.

Between 1952 and 1970, it increased 12 percent. This was on less commercial forest lands. The softened forests of our region, western Oregon and western Washington, carry a substantial portion of the Nation's softwood timber inventory. Too much of this inventory of timber for the future is stagnated in overmature forests. These forests must be rehabilitated in an orderly manner over the next 50 to 75 years. In this way, we can meet the Nation's future demand for timber.

As a result of considerable quantities of timber being in stagnated stands, we are losing significant volumes of wood each year due to decay, disease, and mortality, and the situation is worse in the forests owned by the public sector.

For example, the forest industry is realizing 4.4 times more return or growth on investment or inventory than the U.S. Forest Service.

Mr. ASHLEY. Who is?

Mr. JACKSON. The forest industry as a group. The forest industry is producing—these may not be the exact numbers but they are in my testimony—125 percent more wood on less than half the inventory that the U.S. Forest Service is. We have some specifics in terms of volume per acre.

One of the major problems that we have to solve before we can assure the Nation's supply of wood out into the future—and I am talking 2050—is to rehabilitate these old growth forests.

The question is how do we do this? First, we have to have markets for the wood. In the areas that are supplying the major volumes of wood to the export market, the domestic installed production capacity does not exist and, in my opinion, will not exist out in the future to be able to fully realize the full harvest potential of those forests.

I have given two examples in the testimony, specific examples, which we can back up with detailed studies, virtually a year's study behind each.

To summarize these numbers, through 2020 the forests tributary to the port of Grays Harbor have a harvest potential of double what the projected domestic installed capacity will be. So we have to have some markets for that extra wood if we are to realize the full harvest potential. Exports can pick up some of the slack.

The situation is not quite so bad at Port Angeles, but the forests there, if well managed, are capable of producing on the order of 50 million cubic feet per year more than the local industry could consume.

Let us take a brief look at how far reaching some of the implications are since we are not managing our Nation's forests well. I think you would all agree that the Nation is currently facing an energy crisis. How many times have you heard people say, "If we could only capture solar energy"?

Trees can do this and what's more, they can store it. If we put our forests in shape right now, in the future we will be able to substitute wood for products such as aluminum that require large quantities of energy to produce.

I would like to very lightly touch on four points and then I will be through. Some of the opponents of log exports have said when we export wood we export jobs.

I would like to very lightly touch on four points and then I will be through. Some of the opponents of log exports have said when we export wood we export jobs.

We have tried to support this claim, and we cannot come up with the numbers that support it. In fact, the numbers would prove the other side of the argument. For example, in Washington, where significant quantities of wood are exported, employment in the forest products industry per given volume of wood harvested is greater than in Oregon, where there are fewer exports of logs. So I don't think that one holds.

Second, I cannot agree that log exports are responsible for the high price of lumber. I think some of the charts you saw this morning made the point better than I can that it is the marketplace for lumber and plywood that makes the price, not log exports.

Some questions were raised this morning as to the species that are exported. Hemlock is the major species. I have been around this forest products game long enough in the Northwest to remember the day when hemlock was actually considered a weed species. It was considered a weed species until the advent of the sulfite pulp industry. Thank God the foresters of a few years ago didn't have the herbicides that they have today or they would have been spraying the hemlock forests as they did the alder forests to kill the hemlock.

Fourth, relating to the environment. Some testimony was given this morning that supports this, but I also want to make the point. Log exports or logs that are harvested for export bringing with them considerable volumes of low-grade material from the forests, and facilitate the cleanup of the forests.

Today we are not burning the quantities of wood and debris in our forests that we were a few years ago. We are still burning too much.

The money that is earned by exporting wood is quite frequently reinvested in reforestation programs that help the environment.

I think on that I will close, however, I would definitely like the opportunity to field any questions that may arise.

Mr. ASHLEY. Thank you very much, Mr. Jackson.

[The following statement was submitted for the record by Mr. Jackson on behalf of the "Washington Citizens for World Trade."]



AN ALEC JACKSON  
AND ASSOCIATES  
COMPANY



**GREENACRES CONSULTING CORPORATION**

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ALEC JACKSON, PRESIDENT

March 21, 1973

Committee on Banking & Currency  
U. S. House of Representatives  
2129 Rayburn House Building  
Washington, D. C. 20515

Gentlemen:

I am pleased to have this opportunity to submit the attached testimony on behalf of the "Washington Citizens for World Trade."

The Washington Citizens for World Trade is a broad based group, many of whom have joined together previously to advance the interests of Washington State and its citizens, such as agricultural, business and forestry organizations, unions, school associations, ports and civic organizations.

Respectfully submitted,

GREENACRES CONSULTING CORPORATION

*Alec Jackson*  
Alec Jackson

## SUMMARY

Forests cover approximately one-third, or 754 million acres of the land area of the United States. Approximately two-thirds or 495 million acres of the forests can be classed as commercial forests. These forests contain a total timber inventory of approximately 715 billion cubic feet of sound wood. Softwoods predominate and account for 67 percent of the Nation's total timber inventory. Approximately 90 percent of the Nation's total timber inventory is in the form of growing stock trees. The inventory of growing stock trees is increasing. Since 1953, the Nation's growing stock inventory has increased approximately eight percent. Almost two-thirds of the sound wood in the Nation is in trees of sawtimber size. Old growth timber, located mainly in Washington and Oregon, accounts for approximately 30 percent of the total sawtimber inventory. It is largely because of these old growth stands that the West has about 78 percent of the Nation's total softwood sawtimber. The Nation's forest lands differ widely in terms of their inherent capacity to produce crops of industrial wood. Approximately 34 percent of the Nation's commercial forest lands are capable of producing over 85 cubic feet of wood per acre per year. These lands are capable of producing roughly half of the potential growth for the Nation. The highest concentration of commercial forest lands capable of producing over 85 cubic feet of wood per acre per year is on the Pacific Coast. Approximately 59 percent of the commercial forest land on the Pacific Coast is capable of producing more than 85 cubic feet of wood per acre per year.

The demand for industrial timber products in the United States has increased 70 percent during the past thirty years. Consumption of industrial wood products increased an average of 1.9 percent annually, between 1940 and 1971, to reach an annual total of

125 million tons. As a result of somewhat more efficient and complete use of timber that occurred during the same period, consumption in terms of industrial roundwood from the forests increased at the slower rate of 1.6 percent annually to a total of 13 billion cubic feet. During these three decades, the use of major forest products, consisting of lumber, plywood, and pulp and paper increased substantially.

Lumber consumption increased 49 percent. Use of pulp products increased 235 percent, and consumption of veneer and plywood increased 475 percent. In 1971, housing starts in the United States took a tremendous leap from about 1.5 million units in 1970 to a record of almost 2.1 million units. As final figures are compiled for housing starts in 1972, it appears they will close in the vicinity of 2.4 million units. These record highs have required lumber, plywood, and other wood-related industries to record high outputs for 1972 that will finish the year at seven or eight percent above 1971 when the final figures are tallied. 1973 is projected to be another good year for housing starts; however, the total units constructed will be down from 1972 and in the range of 1.9 to 2.2 million units.

The commercial forest land owned or managed by forest industries does, and will continue to, receive more intensive management than that owned or managed by others. Wood-using firms have become acutely aware of the fact that it is not economical to hold land that ties up capital in high inventories and slow growing stands of timber. Such timber stands are being, and must continue to be, converted to lower inventory and more highly productive stands to make the return on investment competitive with alternative investments. The results of forest management aimed at bringing forests to their full productive potential become evident when the change in timber inventory between 1952 and 1970 is examined. On a regional basis, the Northeast and Southeast have

increased their volumes of timber as understocked stands were stocked. In the West, where the remaining stagnant old growth stands are found, the total inventory is being reduced as the forests are converted to vigorous second growth stands. On a National basis, the inventory of sawtimber increased approximately one-half percent and of growing stock, 12 percent between 1952 and 1970. These numbers definitely do not support some common statements that imply we are running out of trees. Currently, we are experiencing some reduction in commercial forest area, but we are still producing more wood than before.

Forests cover over one-half of Washington and Oregon. Approximately 43 percent of Washington and 42 percent of Oregon is covered by commercial forests. The commercial forest land in Washington and Oregon is among the most productive in the Nation with that of Washington being potentially more productive than that of Oregon. Washington and Oregon with approximately nine percent of the Nation's commercial forest land, have approximately 22 percent of the Nation's total inventory of timber. The timber inventories of Washington and Oregon are approximately 68 and 91 billion cubic feet respectively. In both States, over 95 percent of the inventory is comprised of growing stock trees. Softwood growing stock contributes the greatest volume to the total timber inventory in both States (88 and 89 percent respectively). In both States, the largest owner of softwood growing stock is the U.S. Forest Service (40 and 58 percent respectively). Washington and Oregon collectively carry a softwood growing stock inventory of approximately 141 million cubic feet. Approximately 70 percent (or 99 million cubic feet) of this volume is located in Western Washington and Western Oregon (The Pacific Northwest, Douglas Fir Timber Supply Region). In the Pacific Northwest, Douglas Fir Timber Supply Region, approximately 41 percent

(40 million cubic feet) of the softwood growing stock inventory is in large trees growing mainly in stagnated old growth stands.

During the last two decades, the net growth of the softwood growing stock in the Pacific Northwest, Douglas Fir Timber Supply Region increased 31 percent (from 1,034 to 1,353 million cubic feet annually), while removals increased 23 percent (from 1,971 to 2,420 million cubic feet annually). On the other hand, mortality decreased ten percent (from 700 to 627 million cubic feet annually). These data are significant in that they indicate that the conversion of the stagnated old growth forests to productive second growth forests is progressing.

The softwood commercial forests of the Pacific Northwest, Douglas Fir Timber Supply Region still carry too large a timber inventory and are not producing the volume of timber that they have the potential to produce. This is because many of the commercial forests of the Region carry old growth stands which have stagnated. In such stands significant timber losses occur due to decay, disease, and mortality. The situation is worse in the National Forests than in the forests owned and managed by forest industry. The average inventory of the National Forests is approximately 6,360 cubic feet per acre while the average net growth is only 27 cubic feet per acre per year. Further, the loss of gross growth due to mortality is approximately 39 cubic feet per acre per year. On the other hand, the forests owned by forest industry carry an average inventory of approximately 3,291 cubic feet per acre and produce average net growth of 61 cubic feet per acre per year. Losses due to mortality, at 23 cubic feet per acre per year, are lower than in the National Forest, but are still too high. On an acre for acre basis, the commercial forest land in the Pacific Northwest, Douglas Fir Timber Supply Region, owned and managed by forest industry is producing approximately 126

percent more wood than our National Forests on 48 percent less inventory. Put another way, forest industry is realizing approximately 4.4 times more return on investment than the U.S. Forest Service.

Comparison of the present timber inventories and yields for the current forests of the Pacific Northwest, Douglas Fir Timber Supply Region with potential inventories and yields for the future forests of the region reveals a need to convert to the future forest condition as rapidly as possible. The influence of such a conversion on the Nation's timber supply is demonstrated by the two examples which follow:

#### EXAMPLE 1 - THE FORESTS TRIBUTARY TO THE PORT OF GRAYS HARBOR

Approximately 1.9 million acres of commercial forest is tributary to the Port of Grays Harbor. This forest carries a total inventory of approximately 8.4 billion cubic feet of wood which produces an annual growth of approximately 187 million cubic feet per year. In order to realize the full growth potential of the forest, the inventory should be reduced in an orderly manner to approximately three billion cubic feet. When such an inventory is reached, the annual growth will be approximately 284 million cubic feet per year. During the transition period from the current forest condition to the future forest condition, local surpluses of timber could be generated as follows:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
		<u>(Million Cubic Feet)</u>			
Potential Harvest	293	305	326	337	357
Projected Local Demand	139	158	175	185	176
Potential Surplus	154	147	151	152	181

These surpluses of wood could, and possibly should be exported.

#### EXAMPLE 2 - FOREST TRIBUTARY TO PORT ANGELES

Some 1.1 million acres of commercial forest lands are tributary to the Port Angeles area. These forests carry a total inventory of approximately 7.2 billion cubic feet which

produces a net annual growth of 100 million cubic feet each year. In order to attain the full growth potential of these forests, the present forests must be converted to the future forest condition in an orderly way. When the future forest condition is achieved, the stable inventory of the forests will be approximately 1.6 billion cubic feet and the net annual growth will be approximately 143 million cubic feet. While the current forests are being converted to the future forest condition, the following surpluses of timber could be generated:

	<u>1980</u>	<u>1990</u>	<u>2000</u>	<u>2010</u>	<u>2020</u>
	(Million Cubic Feet)				
Potential Harvest	186	194	200	207	215
Projected Local Demand	117	147	154	163	166
Potential Surplus	69	47	46	44	49

These surpluses of wood could also be, and possibly should be exported.

## BACKGROUND - THE NATIONAL SITUATION

## THE CURRENT FOREST RESOURCE

Forests cover approximately one-third or 754 million acres of the land area of the United States. Approximately two-thirds of the forests can be classed as commercial forests - that is, forest land suitable and available for the production of wood for use by wood-using industries.

Since the initial settlement of the United States, there has been a continual encroachment on forest lands for farms, cities, highways, etc. Over the past few decades, however, the abandonment of cropland in certain areas and reversion to timber growing has tended to offset losses of forest land. During the decade prior to 1953, additions to forest acreage exceeded withdrawals by approximately 24 million acres. In the ten years from 1953 to 1963, the increase in forest area continued at a slower pace with a net increase of approximately eight million acres of commercial forest land. However, between 1963 and 1970, the area of commercial forest land decreased approximately nine million acres.

Although the total forest area of the U.S. is fairly evenly divided between the East and the West, nearly three-quarters of the commercial forest land is in the East. The Southeast has 38 percent of the commercial forest lands, the Northeast 36 percent, and the West 26 percent.

Timber inventories are the reservoir of basic raw material from which the forest products industries draw their raw material requirements. Timber inventories also represent the base for future growth of timber.

The commercial forests of the U.S. contain approximately 715 billion cubic feet



of sound wood. Approximately 90 percent of this volume is growing stock, the remaining ten percent being sound wood in cull and salvable dead trees. Almost two-thirds of the sound wood in the Nation is in trees of sawtimber size. Softwoods predominate in the Nation's inventory of sound wood, accounting for approximately 67 percent of the growing stock. Hardwoods comprise the remaining 33 percent. The sawtimber inventory of the Nation includes a larger proportion of softwoods than the inventory of growing stock. Approximately 75 percent of the Nation's sawtimber inventory is made up of softwoods. Hardwoods constitute only 25 percent of the sawtimber inventory.

During the ten years between 1953 and 1963, growing stock inventories in the U.S. increased by approximately five percent and increased another three percent between 1963 and 1970.

The geographical distribution of timber volumes differs drastically from the geographical distribution of commercial forest lands.

The Western States of the United States have approximately one-quarter of the Nation's commercial forest lands which carry approximately 51 percent of the Nation's growing stock inventory and 61 percent of the Nation's sawtimber inventory.

Old growth timber, located mainly in Oregon and Washington, accounts for approximately 30 percent of the total sawtimber inventory. It is largely because of these old growth stands that the West has about 78 percent of the Nation's total softwood sawtimber.

Average timber inventories per acre differ considerably between sections of the U.S. These differences reflect the concentration of old growth timber on the Pacific Coast, past cutting history and the relative productivity of the commercial forest lands in the different sections of the Nation.

Public forest holdings contain a relatively large proportion of the Nation's timber inventory. The National forests with 18 percent of the Nation's total commercial forest land carry 42 percent of the Nation's sawtimber inventory and 33 percent of the Nation's growing stock inventory. In the West, where most of the public forests are concentrated, even larger proportions of the Nation's total sawtimber and growing stock inventories are in National forests and other public ownerships.

The Nation's forest lands differ widely in terms of their inherent capacity to grow crops of industrial wood. Approximately 34 percent of the Nation's commercial forest lands are capable of producing over 85 cubic feet of wood per acre per year. These lands are therefore capable of producing roughly half of the potential growth for the Nation. The highest concentration of commercial forest lands capable of producing over 85 cubic feet of wood per year per acre is on the Pacific Coast. Approximately 59 percent of the commercial forest land on the Pacific Coast is capable of producing more than 85 cubic feet of wood per acre per year.

#### THE CURRENT FOREST INDUSTRY

The production of lumber was one of the first manufacturing industries established by the colonists upon arriving in North America. The industry originally developed in the New England States with its center in Maine. As the original New England forests were depleted, the industry moved to new areas of virgin timber. The center of production shifted from Maine to New York, then to Pennsylvania, the Lake States, and finally to the remaining virgin forest lands in the West Coast.

Although the lumber industry in the United States originally developed around the use of large-sized virgin timber, it is being converted to the use of smaller second growth

material as the virgin timber becomes scarce. This conversion is being accompanied by a redistribution of the forest industry in accordance with fiber productive capacity rather than timber size. The result that is developing is a high concentration of the industry in the South and Pacific Coast States followed by the Northern States and the Rocky Mountain region.

Historically, lumber has been the wood product that has made the greatest demand on forests of the United States. However, while the demand for sawlogs has increased somewhat since 1940, the demand for veneer logs and pulpwood has more than doubled. The relative importance of wood uses within the forest industry has changed significantly since the early 1900's. Factors that have influenced the growth and development of the various segments of the industry include population growth, changes in consumer preferences, research, development of new products, development of new uses for established products, technical improvements in processing, improved product quality, and new marketing approaches. The prime objective guiding changes in the industry is to convert the largest possible volume of the available wood fiber into marketable products at the highest dollar return.

The logging segment of forest industry consists of those firms, or divisions of firms, primarily engaged in timber cutting operations. It is this segment of the industry that has been termed the key to forest management in that even the best management objectives can be destroyed by poorly planned or executed logging practices.

When wood fiber passes from the logging segment of the forest industry, to the sawmilling segment of the industry, it is again subjected to determinations relative to utilization, end use, and value. Any value or quality maintained in the harvesting operations can be preserved or destroyed by the quality of equipment or methods and

skill used in handling the wood in the sawmilling operations.

The price of wood fiber has long been well-established in the sawmilling industry as the largest single manufacturing cost in the production process. Labor costs have been reduced significantly through mechanization and improved plant layout. Mechanization has also reduced human judgment errors in the handling and breakdown processes. The increased costs of wood, both in real dollars and proportionately within the production process has created the necessity for many wood products and equipment manufacturers to spend large amounts of time, effort, and money toward maximizing the dollar return per log entering the mill. The problem is being approached from the standpoints of more efficient handling, increasing recovery, developing new products, developing new markets, and capturing larger shares of present markets.

The necessity to maximize dollar return per log entering the mill is putting an end to the concept of fast mills and replacing it with the concept of precision sawing to obtain the largest volume and dollar recovery from each log. Technological developments that have assisted and implemented this change in thinking include: improved log handling and sorting equipment; precision infeed systems; computerized breakdown decisions to obtain greatest lumber value per log; thin kerf saws; chip and saw systems; and increased utilization of residual material that is approaching whole log utilization.

The number of plants in the sawmilling segment of the forest industry that are taking advantage of technological advancements is rapidly increasing. It appears quite certain that modernization of manufacturing facilities will accelerate along with further technological improvements. In spite of the developing optimistic outlook for the sawmilling segment of the forest industry, the facts are that the majority of sawmills in the United States are small, inefficient operations with less than twenty employees and limited

resources.

The plywood segment of the forest industry consists of plants primarily engaged in producing commercial veneer, and those primarily engaged in manufacturing commercial plywood.

The modern softwood plywood segment of the forest industry began around 1905 in the Grays Harbor area of Washington State. The technological innovations that initiated the rapid growth of this segment of the industry were the commercial application of rotary peeling of veneer and cross-lamination. These two developments permitted the manufacture of large sheets of wood with structural integrity. The resulting product, called plywood, had the high strength-to-weight ratio of wood, the advantage of being workable with familiar tools, and easy fastenability. The convenience of sheet-size dimension combined with the inherent qualities of wood provided for the dynamic growth of plywood markets.

In recent years, there have been a number of developments in green-end equipment which have made tremendous improvements in the efficiency with which small logs can be handled. Among these developments are: long-log barkers, log steaming systems, automatic lathe chargers, precision block trimming and scanning, refined lathe drives, precision peeling, retractable chucks, lathe back-up rolls, precision clipping, and equipment modifications to permit rapid maintenance and repair functions. Systems engineering advancements encompassing the entire green-end have also greatly improved the reliability of the barking, peeling, and clipping operations.

The development of this new equipment and the continued demand for sheathing has caused a spectacular expansion of the softwood plywood industry and its extension beyond the West Coast Douglas fir region. Plants have been built or are being built in

Central Washington, Eastern Washington, Idaho, Montana, and throughout the South.

The pulp manufacturing segment of the forest industry is comprised of establishments primarily engaged in manufacturing pulp from wood or combinations of wood and other materials such as rag and waste paper.

Since approximately 1945, the pulp manufacturing segment of the forest industry has rapidly gained importance as a utilizer of residue materials from other segments of the industry. However, in very recent years, a growing proportion of the chips used by pulp mills have been produced from roundwood at chipping facilities located near the timber supplies. Some of this material has been logging residue and cull timber that would not otherwise be utilized.

#### THE CURRENT CONSUMPTION OF WOOD BY THE CURRENT FOREST INDUSTRY

The 1970 Timber Review, prepared by the U.S. Department of Agriculture, Forest Service, points out demands for industrial timber products in the United States, which includes all timber products except fuelwood, have increased 70 percent during the past thirty years. Consumption of industrial wood products increased an average of 1.9 percent annually, between 1940 and 1971, to reach a total of 125 million tons. As a result of somewhat more efficient and complete use of timber that occurred during the same period, consumption in terms of industrial roundwood increased at a slower rate averaging 1.6 percent annually to a total of 13 billion cubic feet. During these three decades, use of major forest products, consisting of lumber, plywood, and pulp and paper, increased substantially. Lumber consumption increased 49 percent. Use of pulp products increased 235 percent, and consumption of veneer and plywood increased 475 percent. During the same period, use of fuelwood and other minor products such as poles and posts

declined.

In 1971, housing starts in the United States took a tremendous leap from about 1,463,000 in 1970, to a record year of about 2,052,200.

The January 1972 issue of Forest Industries magazine indicates that some economists predict the country is at the beginning of a five-year housing boom which will extend through 1975 and produce 23 million new units by the end of the 1970's. As pointed out in "The Demand and Price Situation for Forest Products 1971-71", published by the Department of Agriculture, Forest Service, the large increase in housing in 1971 reflected an accumulation of the following: money available for mortgages; an increase in Federal subsidies; and the pressures from a combination of shortfalls of units built in the 1960's; new household formations, and the growing need for housing replacement. These forces continued to operate in 1972.

As the final figures are compiled for housing starts in 1972, it appears they will close in the vicinity of 2.4 million units. These record highs have required the lumber, plywood and other wood-related industries to record high outputs for 1972 that will finish the year at seven or eight percent above 1971 when the final figures are tallied.

1973 is projected to be another good year for housing starts; however, total units constructed will be down in the range of 1.9 to 2.2 million units. This decline in conventional housing starts will result from tighter mortgage money, decreased demand for homes, higher interest rates, increased home prices, and a reduction in Government spending for subsidized housing projects. This lower level of housing starts will give the timber industry time to rebuild inventories and adjust product output. The projections for the trend in 1974 shows starts near the lower range of 1973 starts.

The trend in housing starts is of particular importance in appraising present and

prospective timber markets because of the large volumes of lumber and plywood consumed in this use.

#### THE FUTURE FOREST RESOURCE

For at least twenty years, prior to 1963, reversion of abandoned agricultural lands to forests more than offset losses of commercial forest land. However, between 1962 and 1970 the situation reversed and the area of land classified as commercial forest land declined more than eight million acres. The largest portion of this loss in forest land occurred in the South where large areas of hardwood forests were cleared for agricultural land and some additional hardwood forests were eliminated as a result of reservoir construction. In the West, where a smaller proportion of land was lost, the loss occurred primarily as a result of changed land use to recreation, with some additional loss to roads, powerline rights-of-way, and urban development. During this same period of time, the area of commercial forest increased in the North by two percent, as a result of abandoned agricultural land converted to forest. Throughout the United States, the eight million acres of forest lost constituted approximately two percent of the Nation's commercial forest land.

In the future, some continuing net losses of forest land will occur. These have been estimated by the U.S. Forest Service at about five million acres per decade for the next fifty years. This would amount to a five percent reduction in commercial forest land between 1970 and 2020.

In addition to the land use changes that are occurring, there are also shifts in forest ownership taking place. Between 1952 and 1970, forest products industries increased their ownership by 13 percent. However, even though private ownership accounts for 73



percent of the commercial forest land in the United States, forest industry controls less than 19 percent of that area. The remainder is owned by farmers and miscellaneous private owners. Farm ownership has been decreasing while miscellaneous ownerships have been increasing.

It is expected that forest industry ownership will continue to increase in the future and that their management will be extended further by long-term leasing agreements. Forest Service records indicate that, in the South alone, forest products industries presently hold nearly four million acres of forest land under long-term lease from farmers and miscellaneous private owners. The commercial forest land managed by forest industries will receive more intensive management than other ownerships. Wood-using firms have become acutely aware of the fact that it is not economical to hold land that ties up capital in high inventories and slow growing stands of timber. These stands must be converted to lower inventory, more highly productive stands to make the return on investment competitive with alternative investments. Similarly, land that is understocked and underproductive must be brought to productive capacity through intensive management practices. Land that is presently controlled by firms which are not willing or able to apply intensive forest management practices will gradually pass to those that are able to do so. This shift will occur as firms utilize capital to their best advantage.

The results of forest management effort to bring understocked and under-productive forest areas to their productive capacity, and to reduce overstocked stagnant areas to a lower optimum stocking and high productive level, become evident by examining the change in timber inventories between 1952 and 1970.

On a regional basis, the North and South have been increasing their volumes of both sawtimber and growing stock in both softwoods and hardwoods. The only reduction

occurring within these regions was a drop of six percent in the hardwood sawtimber volume in the South Central States. This drop was accompanied by an increase of 17 percent in the softwood sawtimber volume for an overall increase in sawtimber of 13 percent for all species.

In the West, where the remaining overstocked stands of large old growth are found, both sawtimber and growing stock volumes are being reduced. These reductions are occurring in the softwood stands while the relatively small volumes of hardwoods in the region are experiencing moderate increases.

These volume changes that are occurring are exactly those that would be expected as a result of forest management applied to the general forest conditions in the regions. In the North and South, where forests were generally depleted and lacked aggressive management for many years, the under-productive forests are being brought to productive capacity. In the West, where large old growth stands have stagnated, the forest inventory must be reduced to realize their productive capacity.

On a National basis, between 1952 and 1970, softwood sawtimber decreased four percent, softwood growing stock increased five percent, hardwood sawtimber increased 19 percent, and hardwood growing stock increased 26 percent. The result for all species was an increase in sawtimber volume of about one-half percent, and an increase in growing stock volume of 12 percent.

These numbers definitely do not support the common statements that imply we are running out of trees. Currently, we are experiencing some reduction of commercial forest area, but we are now producing more wood than before. The numbers do not, however, answer the question of whether or not allowable cuts will satisfy increased demands. This can only be determined by the success of future forest management practices and utilization

technology.

Intensively managed forests will reach productive capacities that are much higher than those of "natural" stands. Examples of inventories and yields for two forest types under different levels of management in the Douglas fir region of the Pacific Coast will be presented later.

Lands managed by forest industries will be brought to the future high yield management state more rapidly than other ownerships. The conversion is projected to be complete on these lands by 2020.

Federal commercial forest land, on which timber production is designated as the highest and best use, will possibly reach the high yield management state by 2045. However, on a large percentage of Federal forest land, timber production will be limited in favor of other uses such as recreation, scenic views, and watershed management. The greatest impact from conflicting uses will occur on lands managed by the Forest Service which constitute approximately 86 percent of all Federal commercial forest land. There are some recent indications that commercial forest land managed by the Forest Service may never reach a high yield management state as a result of policy decisions relative to management practices. In the November 25, 1972 issue of *Business Week*, John R. McGuire, Chief of the U.S. Forest Service, was quoted as stating: "We want to assure quality before quantity. If necessary, we will sacrifice some timber cutting for wildlife protection, wilderness, and other benefits. The public is placing a higher value on these intangibles, and we are moving to bring ourselves in line with that." He stated further that: "What the industry wants most, of course, is a sharp increase in the harvest from public land through high yield forestry methods. That is entirely appropriate for many of our private forests. But it is not the kind of thing we can do under the multiple

use law in the National forests."

In addition to conflicts of interest relative to timber production, it is becoming increasingly hard for the Forest Service to absorb the costs of preparing timber for sale. These costs have increased, for example, from \$1.19 per thousand board feet in 1965 to \$2.84 in 1972, (Business Week, November 25, 1972). With the recently added responsibility of preparing environmental impact statements and supervising stricter cutting practices, the costs associated with timber sales are becoming prohibitive in the face of limited funds and personnel. The inevitable result of these conditions is a reduction of timber sales volume, which is already occurring. During the 1972 Federal fiscal year, Forest Service timber sales volume dropped about eight percent below the previous year. In the February, 1973 issue of Forest Industries, Secretary of Agriculture, Earl Butz was quoted as stating: "The job ahead is a job for private land foresters."

In summary, future forests will be more conscientiously and intensively managed according to the management objectives of the various owners. Federal commercial forest land will be managed with harvest practices and rotations adapted to the designated uses and objectives for each particular area. Private commercial forest land owned or managed by forest industries will be intensively managed for optimum timber production. The greatest degree of uncertainty relative to future forest management is associated with the forest land owned by farmers and miscellaneous private owners. They control more than 81 percent of private forest land, or 59 percent of all commercial forest land in the United States.

The potential to meet future timber demands is probably within the capability of our forests' productive capacity. Whether or not this need is met depends on the success of future forest management techniques, utilization capabilities, and land use priorities

established.

## THE PACIFIC NORTHWEST SITUATION - WASHINGTON AND OREGON

Forests cover over one-half of Washington and Oregon (23.1 and 30.4 million acres respectively). Approximately 43 percent of Washington's land area and 42 percent of Oregon's land area carries commercial forests (18.4 and 25.7 million acres respectively). In Washington, approximately 52 percent of the commercial forest land is in public ownership and 48 percent in private ownership. In the public sector, the U.S. Forest Service, with almost 30 percent of the commercial forest land, is the largest owner. In the private sector forest industry, with almost 24 percent of the commercial forest land, is the largest owner. Public ownerships hold about 60 percent of the commercial forest land in Oregon and private ownerships approximately 40 percent. The U.S. Forest Service, with almost 47 percent, is the largest owner in the public sector and forest industry, with approximately 20 percent, the largest owner in the private sector. The area of commercial forest land in Washington and Oregon is summarized in Table I.

The commercial forest land in Washington and Oregon is among the most productive in the Nation with that of Washington being more productive than that of Oregon. Approximately 58 percent of the commercial forest land in Washington is capable of producing over 85 cubic feet of wood per acre per year. About 54 percent of the commercial forest land in Oregon is capable of similar production. The area of commercial forest land in Washington and Oregon by productivity class is summarized in Table II.

Washington and Oregon with approximately nine percent of the Nation's commercial forest land have approximately 22 percent of the Nation's total inventory of timber.

TABLE I

## AREA OF COMMERCIAL FOREST LAND BY OWNERSHIP

	Washington		Oregon	
	(1,000 acres)	(percent)	(1,000 acres)	(percent)
Total Land Area	42,665	100.0	61,574	100.0
Total Forest Area	23,098	54.1	30,404	49.4
Commercial Forest Area	18,401	43.1	25,673	41.7
Public Commercial Forest	9,518	51.7	15,519	60.4
Total Federal	7,233	39.3	14,581	56.8
National Forest	5,424	29.5	12,003	46.8
Bureau of Land Management	48	0.2	2,246	8.7
Indian	1,593	8.7	324	1.3
Miscellaneous	168	9.9	8	negligible
State	2,116	11.5	800	3.1
County and Municipal	169	0.9	138	0.5
Private Commercial Forest	8,883	48.3	10,154	39.6
Forest Industry	4,348	23.6	5,206	20.3
Farmer	1,866	10.2	2,850	11.1
Miscellaneous	2,669	14.5	2,098	8.2
Total Commercial Forest	18,401	100.0	25,673	100.0

TABLE II

## AREA OF COMMERCIAL FOREST LAND BY PRODUCTIVITY CLASS

Cubic Feet Per Acre Per Year	Washington		Oregon	
	(1,000 acres)	(percent)	(1,000 acres)	(percent)
Less than 50	1,217	6.6	2,519	9.8
50 - 85	6,543	35.6	9,224	36.0
85 - 120	3,569	19.4	5,219	20.3
120 - 165	3,918	21.3	5,243	20.4
165 or more	3,154	17.1	3,468	13.5
Total	18,401	100.0	25,673	100.0

The timber inventories of Washington and Oregon are approximately 68 and 91 billion cubic feet respectively. In Washington, 95 percent of the total timber inventory is comprised of growing stock trees, in Oregon over 96 percent. The net volume of all timber on commercial forest land in Washington and Oregon is summarized in Table III.

TABLE III  
NET VOLUME OF ALL TIMBER ON COMMERCIAL FOREST LAND  
(Million Cubic Feet)

	Total, All Species		Softwoods		Hardwoods	
	(million ft. <sup>3</sup> )	(percent)	(million ft. <sup>3</sup> )	(percent)	(million ft. <sup>3</sup> )	(percent)
<b>Washington</b>						
Growing Stock	65,115	95.2	59,957	95.5	5,158	92.5
Sound Cull	696	1.0	341	0.5	355	6.4
Rotten Cull	511	0.8	486	0.8	25	0.4
Salvable Dead	2,064	3.0	2,028	3.2	36	0.7
Total	68,386	100.0	62,812	100.0	5,574	100.0
<b>Oregon</b>						
Growing Stock	87,093	95.9	81,061	96.5	6,032	88.4
Sound Cull	1,230	1.4	504	0.6	726	10.6
Rotten Cull	265	0.3	238	0.3	27	0.4
Salvable Dead	2,215	2.4	2,175	2.6	40	0.6
Total	90,803	100.0	83,978	100.0	6,825	100.0

Softwood growing stock contributes the greatest volume to the total inventory of timber in both Washington and Oregon. In Washington, approximately 88 percent of the total inventory is comprised of softwood growing stock. In Oregon, approximately 89 percent of the total inventory is contributed by softwood growing stock. Approximately 4.2 percent of the total timber inventory of Washington is in the form of cull and salvable dead softwood trees. In Oregon, approximately 3.2 percent of the total timber inventory is contributed by cull and salvable dead softwood trees.

The net volume of softwood growing stock on commercial forest land in Washington and Oregon is summarized by ownership in Table IV. In both Washington and Oregon the largest owner of softwood growing stock is the U.S. Forest Service (40 and 58 percent of the total respectively).

TABLE IV  
NET VOLUME OF SOFTWOOD GROWING STOCK ON COMMERCIAL  
FOREST LAND IN WASHINGTON AND OREGON BY OWNERSHIP

	National Forest	Other Public	Forest Industry	Other Private	Total
Washington					
Million Cubic Feet	24,038	13,191	14,834	7,894	59,957
Percent	40.1	22.0	24.7	13.2	100.0
Oregon					
Million Cubic Feet	47,351	12,885	12,561	8,264	81,061
Percent	58.4	15.9	15.5	10.2	100.0
Percent Change in Volume of Growing Stock 1952-1970					
Washington	- 5.7	+ 4.6	-15.9	+26.4	- 3.3
Oregon	+ 4.1	-15.6	-34.1	+ 6.5	- 7.4

Washington and Oregon collectively carry a softwood growing stock inventory of approximately 141 million cubic feet. Approximately 70 percent (or 99 million cubic feet) of this volume is located in Western Washington and Oregon (the Pacific Northwest, Douglas fir Timber Supply Region).

In both Washington and Oregon, approximately 70 percent of the softwood growing stock volume is located West of the Cascade Summit (42 and 57 million cubic feet respectively). Approximately 41 percent (or 40 million cubic feet) of the softwood growing stock inventory in the Pacific Northwest, Douglas Fir Timber Supply Region (Western Washington and Oregon) is in large trees with a diameter breast height of 29 inches or



greater. Douglas fir, Western hemlock, true firs and western red cedar are the major species (53, 25, 11, and 5 million cubic feet respectively).

The net annual growth and removals of softwood growing stock on commercial forest land for the Pacific Northwest, Douglas Fir Timber Supply Region for 1952, 1962, and 1970 are summarized in Table V, along with the annual mortality. During the last two decades, growth and removals have increased and mortality has decreased. Between 1952 and 1970, growth increased 31 percent from 1,034 to 1,353 million cubic feet, removals increased 23 percent from 1,971 to 2,420 million cubic feet and mortality decreased ten percent from 700 to 627 million cubic feet.

TABLE V

NET ANNUAL GROWTH AND REMOVAL OF SOFTWOOD GROWING  
STOCK ON COMMERCIAL FOREST LAND OF THE PACIFIC NORTHWEST,  
DOUGLAS FIR TIMBER SUPPLY REGION  
(Million Cubic Feet)

	<u>Growth</u>	<u>Removals</u>	<u>Mortality</u>
1952	1,034	1,971	700
1962	1,214	1,951	663
1970	1,353	2,420	627

The softwood commercial forests of Western Washington provided 53 percent (720 million cubic feet) of the annual growth of the softwood growing stock in the Pacific Northwest, Douglas Fir Timber Supply Region in 1970, Western Oregon - the remaining 47 percent (633 million cubic feet). Softwood growing stock removals in the Pacific Northwest, Douglas Fir Timber Supply Region in 1970 were 51 percent (1,237 million cubic feet) from Western Washington and 49 percent (1,183 million cubic feet) from

Western Oregon. These data are particularly significant since they demonstrate that the softwood commercial forests of Western Washington are more productive than those of Western Oregon and that they are not being exploited to the same extent.

The commercial forests of Western Washington cover approximately ten million acres and carry a softwood growing stock inventory of 42 billion cubic feet or approximately 4,237 cubic feet per acre. The softwood annual growth in Western Washington is approximately 720 million cubic feet or approximately 72 cubic feet per acre per year or approximately 1.7 percent on inventory. On the other hand, the commercial forests of Western Oregon cover 14.6 million acres and carry a softwood growing stock inventory of approximately 57 billion cubic feet or approximately 3,883 cubic feet per acre. The softwood annual growth in Western Oregon is approximately 633 million cubic feet or approximately 43 cubic feet per acre per year or approximately 1.1 percent on inventory.

Annual removals of softwood growing stock from the commercial forests of Western Washington approximate 1,237 million cubic feet per year or approximately 172 percent of the annual growth. Annual removals of softwood growing stock from the commercial forest of Western Oregon approximate 1,183 million cubic feet per year or approximately 187 percent of the annual growth.

The softwood commercial forests of the Pacific Northwest, Douglas Fir Timber Supply Region, currently carry too large a timber inventory and are not producing the volume of timber that they have the potential to produce. This is because many of the commercial forests of the region carry old growth stands which have stagnated. In such old growth stands significant timber losses occur due to decay, disease, and mortality, and detract from net annual growth.

In the Pacific Northwest, Douglas Fir Timber Supply Region, the softwood commercial forests carry an average inventory of 4,027 cubic feet per acre and produce approximately 55 cubic feet per acre per year of wood due to net growth. Approximately 25 cubic feet per acre per year of gross growth is lost due to mortality. The average inventory of the National Forests of the Region, 6,360 cubic feet per acre is higher than the average for all commercial forests of the Region. The average growth of the National Forests, 27 cubic feet per acre per year, is below the average for the Region. Further, loss of gross growth due to mortality in the National Forests of the Region, 39 cubic feet per acre per year, is greater than the average for the Region and is greater than the net growth for the National Forests of the Region. On the other hand, the commercial forests of the Region owned by Forest Industry carry a lower than average inventory, 3,291 cubic feet per acre, yield higher than average net annual growth, 61 cubic feet per acre per year, and lose less than average gross growth due to mortality, 23 cubic feet per acre per year.

On an acre for acre basis, the commercial forest land in the Pacific Northwest, Douglas Fir Timber Supply Region, owned by forest industry is producing approximately 126 percent more wood than that owned by the U.S. Forest Service on 48 percent less inventory. Put another way, forest industry is realizing approximately 4.4 times the return on investment that the U.S. Forest Service is realizing. Further, on an acre for acre basis, the National Forests are losing, due to mortality, approximately 1.7 times as much wood each year as the forests owned by industry.

Examples of potential inventories and yields for the two major forest types of the Pacific Northwest, Douglas Fir Timber Supply Region, under different levels of management are summarized in Table VI. In Table VI, the various stand conditions (manage-

TABLE VI  
FUTURE YIELDS AND INVENTORIES <sup>1)</sup> OF MANAGED STANDS

<u>DOUGLAS FIR FOREST TYPES</u>				
Stand Condition. (Level of Management)	1	Site Quality		4
		2	3	
Stands Stocked				
Inventory (cubic feet per acre)	1,963	1,463	926	407
Yield (cubic feet per acre per year)	139	107	74	37
Stands Spaced and Thinned				
Inventory (cubic feet per acre)	2,593	1,908	1,463	1,037
Yield (cubic feet per acre per year)	256	198	146	102
Stands Spaced, Thinned, and Fertilized				
Inventory (cubic feet per acre)	2,852	2,259	1,833	1,352
Yield (cubic feet per acre per year)	282	224	181	133
<u>SPRUCE-FIR-HEMLOCK FOREST TYPES</u>				
Stands Stocked				
Inventory (cubic feet per acre)	2,445	1,908	1,389	852
Yield (cubic feet per acre per year)	207	163	120	78
Stands Spaced and Thinned				
Inventory (cubic feet per acre)	2,778	2,222	1,722	1,074
Yield (cubic feet per acre per year)	274	220	170	106
Stands Spaced, Thinned, and Fertilized				
Inventory (cubic feet per acre)	2,963	2,426	1,945	1,278
Yield (cubic feet per acre per year)	293	239	193	126

1) 7" d.b.h. to 5" tops in 16' logs, trees age 30 and older, 50 year rotation.

ment levels) are defined as follows:

Stands Stocked means each acre is stocked 70 percent normal, according to Forest Service Bulletins 201 (Douglas fir types) and 1273 (spruce-fir-hemlock types). The only management practice is final harvest.

Stands Spaced and Thinned means the trees have room to grow from youth without serious competition. Commercial thinnings are taken.

Stands Spaced, Thinned, and Fertilized means the previous category, plus fertilization at ages between 10 and 30 years.

A comparison of the present timber inventories and yields for the current forests of the Pacific Northwest, Douglas Fir Timber Supply Region with the potential inventories and yields for the future forests of the region reveals a need to convert to the future forest condition as rapidly as possible. The influence of such a conversion on the Nation's timber supply can be best demonstrated by study of the two examples which follow:

#### EXAMPLE 1 - FORESTS TRIBUTARY TO THE PORT OF GRAYS HARBOR

The area tributary to the Port of Grays Harbor encompasses a total land area of 2,682,500 acres, of which 2,467,900 acres are forested. Approximately 1,981,900 acres of the forested acres are classed commercial forest lands, of these, only 1,884,300 acres are considered tributary to the Port of Grays Harbor because of ownership patterns. The timberlands of Crown Zellerbach Corporation in Pacific County are tributary to that company's operations on the Columbia River. The timberlands of Simpson Timber Company in Grays Harbor County are tributary to that company's Shelton facilities.

Of the commercial forest lands considered tributary to the Port of Grays Harbor, approximately 40 percent are owned by major forest industry companies, 35 percent by

public agencies and 25 percent by small forest industry companies or individuals.

Two major forest types exist in the area. On the humid Western slopes of the Coastal Range, spruce-fir-hemlock forest types dominate. On the balance of the area, Douglas fir forest types dominate. Approximately 940,000 acres belong to the spruce-fir-hemlock forest types and 944,000 acres to the Douglas fir forest types.

These forests carry a total inventory of approximately 8.4 billion cubic feet with approximately 6.2 billion cubic feet (or 74 percent) of the inventory being in softwood sawtimber. Approximately 64 percent of the timber inventory is on private land and 36 percent on public land. Hemlock is the major species growing in the area and contributes 54 of the total inventory. Other major species are Douglas fir (14 percent), Western red cedar (nine percent), and the true firs (eight percent).

The commercial forests tributary to the Port of Grays Harbor are potentially highly productive. Their distribution by Site Quality is approximately as follows:

<u>Site Quality</u>	<u>Percent of Total</u>
1	2
2	42
3	43
4	13

Much of the commercial forest land in the area is covered by old growth timber stands which have stagnated. Therefore, the full growth potential of the area is not being realized. The current annual growth for the area is approximately 187 million cubic feet per year or 2.2 percent on inventory.

In order to realize the full growth potential of the commercial forests of the area, the present forest must be converted to the future forest condition in an orderly way. Such a conversion is occurring, and it is estimated that it will take 55 years to realize the full productive potential on private lands and 75 years on public lands.

When the future forest condition is achieved, the stable inventory will be approximately 3 billion cubic feet and the annual growth will be approximately 284 million cubic feet or approximately 9.4 percent on inventory.

During the transition period from the current forest condition to the future forest condition, approximately the following volumes of wood will be potentially available for harvest:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	293
1990	305
2000	326
2010	337
2020	357

These volumes are greater than the current annual or future annual growth since a reduction in inventory will be taking place as stagnated old growth stands are converted to vigorously growing second growth stands.

Local industry does not and will not have adequate capacity to utilize the total forest harvest potential of the area.

It is estimated that local industry will utilize the following quantities of wood in the future:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	139
1990	158
2000	175
2010	185
2020	176

The surplus of wood which can be produced by the forests of the area will be approximately as follows:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	154
1990	147

<u>Year</u>	<u>Million Cubic Feet</u>
2000	151
2010	152
2020	181

This surplus of wood could be and possibly should be exported.

#### EXAMPLE 2 - FORESTS TRIBUTARY TO PORT ANGELES

The area tributary to Port Angeles consists of 1,245,000 acres of which 1,081 acres are classed as commercial forest land.

Of the commercial forest lands tributary to Port Angeles, 45 percent are in public ownership, 34 percent are owned by major forest industry companies and 21 percent by small forest industry companies or individuals.

Two major forest types exist in the area. Spruce-fir-hemlock types occupy 50.4 percent of the area and Douglas fir types, 49.6 percent of the area.

These forests carry a total inventory of approximately 7.2 billion cubic feet of which 5.6 billion cubic feet (78 percent) is in the form of softwood sawtimber. Approximately 68 percent of the total inventory is on public land and 32 percent on private land. Hemlock is the major species growing in the area and contributes 52 percent of the total inventory. Other major species are Douglas fir and true fir (15 percent each) and Western red cedar (10 percent).

These forests are potentially highly productive. Their distribution by Site Quality is as follows:

<u>Site Quality</u>	<u>Percent of Total</u>
1	2
2	24
3	49
4	25



A substantial proportion of the commercial forest land carries old growth stands which have stagnated and where mortality consumes gross growth, thus, the full growth potential of the area is not being realized. The current annual growth for the area is approximately 100 million cubic feet per year or approximately 1.4 percent on inventory.

In order to realize the full growth potential of the commercial forests of the area, the present forest must be converted to the future forest condition in an orderly way. Such a conversion is occurring and it is estimated that it will take 55 years to realize the full productive potential on private lands and 75 on public. When the future forest condition is achieved, the stable inventory will be approximately 1.6 billion cubic feet and the annual growth will be approximately 143 million cubic feet per year or 8.9 percent on inventory.

During the transition period from the current forest condition to the future forest condition, approximately the following volumes of wood will be potentially available for harvest:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	186
1990	194
2000	200
2010	207
2020	215

The volumes are greater than the current annual or future annual growth, since a reduction of inventory will be taking place as stagnated old growth stands are converted to vigorously growing second growth stands.

Local industry does not and will not have the capacity to utilize the full harvest potential of the area. It is estimated that local industry will utilize the following quantities

of wood in the future:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	117
1990	147
2000	154
2010	163
2020	166

The surplus of wood which can be produced by the forests of the area will be approximately as follows:

<u>Year</u>	<u>Million Cubic Feet</u>
1980	69
1990	47
2000	46
2010	44
2020	49

This surplus of wood could be and possibly should be exported.

Mr. ASHLEY. Mr. Gaskins, would you proceed?  
Mr. GASKINS. I will defer to Mr. Ewing.

**STATEMENT OF ARNOLD EWING, EXECUTIVE VICE PRESIDENT,  
NORTHWEST TIMBER ASSOCIATION, EUGENE, OREG., ACCOMPANIED BY BUD JOHNSON, DIRECTOR, NWT A**

Mr. EWING. Thank you, Mr. Chairman. I appreciate the opportunity to appear on this short notice. I was unaware of this meeting before.

My name is Arnold Ewing. I am executive vice president of Northwest Timber Association. We are a medium-size organization representing some 37 mills in western Oregon. Our production is 1½ billion board feet of lumber equivalent per year.

We survive on public timber. Perhaps the reason I requested to testify here today was that I first heard about the meeting by accident when I got here. I listened to the testimony this morning. I began to realize that I better begin to get my own thoughts across here to see that there was a representation by people who buy public timber.

I was amazed to see that the industry man on the panel this morning is probably the largest landowner in the United States and the largest exporter of logs in the United States. So I think we need our input on what may happen to public logs as well as plywood in the area.

I do want to emphasize there was excellent testimony by these people on the needs to increase our supply on both the private and public lands and the methods they suggested are excellent, these appropriations for public timber. We concur completely.

Let me bring out a few facts. I ask that in fairness I will document all of this in writing, the facts to which I will testify to at this time.

I heard that the mills in the Northwest are producing at full capacity. They are producing at full capacity based on the logs that are available and they can depend upon. We ran a specific survey of our membership of 37 mills.

Our membership alone, without adding any manpower, changing equipment, within 30 to 45 days can be producing somewhere between 200 million and 250 million board feet per year in addition to what they are producing now.

This is privileged information and I will ask the individual if I can use it at a later date, but in conversation with another association in northern California they made the same type of a questionnaire to their people and his information to me last night was that their membership could increase their production by 600 million feet per year.

This one I will ask for the use of his testimony.

Mr. ASHLEY. What percentage increase is that?

Mr. EWING. On mine it is about 20 percent and his about 18 percent. He has a larger membership than mine, obviously.

I called the West Coast Lumber Inspection Bureau which grades and examines about 5 billion board feet a year in the Pacific Northwest, and they have made an examination of their mills under this 5 billion board feet and they find that 75 percent of those mills are only running one shift. Obviously, some could or could not increase their shift capacity. But the capacity is there is what we are saying, gentlemen. The logs are not there.

I want to emphasize that there is a mill capacity in the Northwest to absorb more logs, produce more lumber for the use in the United States.

One of the other statements I heard to offset this was that these logs that are being exported and the mills that can increase their supply are not in the same area.

I am from Eugene, Oreg., and I see a steady stream of logs from some of these people who testified, one of the producers who testified this morning, and others, logs going straight to the Columbia River, going to Japan, and our mills right in that area can increase their capacity by 200 million board feet a year.

I count those trucks every day. I retained a man full time to just study log movements. There is no connotation there is anything wrong with exporting logs today legally. I just want to document where private logs are moving, where they are from, what was going export, and if these same people are buying public timber.

We have documented this two times. Two years ago we did it and we just completed a documentation last week. There is a considerable volume of logs being exported by private operators, private landowners, and in turn, buying public timber to replace the export logs.

The statement was made this morning that the Morse amendment does allow for regulations to prevent substitution of logs. That is true, it does allow for it. There were hearings held several years ago and I participated in those hearings. Those regulations were defeated by these very same large landowners that export heavily their private timber and do replace with public timber.

We opposed it and we tried to offset that situation but we could not. Presently we are involved in trying to get some kind of export law through. We have not been successful yet, but we hope that you people will see the same problems that we see.

I recognize another thing that I am sure we all know, that we have three classifications of land. We have the public land that does need considerably more money in appropriations and can produce considerably more.

The Chief of the Forest Service several years ago made the statement that with sufficient funding we can increase the production from public lands by 50 percent. I concur with that conclusion. I think all foresters do.

We have two other categories, both private. One is the industrial private lands and some of the industrial private lands do have excellent management; not all, but some do.

Then you have 60 percent of your total commercial forest lands area in the United States that belongs to nonindustrial private land. I have real concern on this one because this is our future supply this next decade and the decade after because right today it is the 30- and 40-year-old stuff cut in the 1930's and 1940's during the war.

I am speaking from my knowledge of western Oregon. At this time, this market, the rancher, 30-, 40-, and 50-year-old timber is being heavily invaded and purchased by loggers for export to the Japanese. This is premature clear cutting or whatever it might be.

Harvesting of that stand is a better term than clear cutting. It is harvesting. Thirty-year-old timber should not be harvested. It may be managed, certainly.

But if you look at a rancher that has a mortgage who is sending kids to school and he sees \$200-plus stumpage price for that in his back-yard and he will sell it.

So I say, gentlemen, we need controls three ways. We need some controls to stop the log export from public lands from 350 to zero. That doesn't seem like much volume. It is a considerable volume in our area because it is hard to manage, hard to identify it. But tied with it we need to prevent the fellow who is exporting his private timber from coming and buying the public timber.

I have these records for 14 years—this is only western Oregon—every individual's name whoever bought at public sale, whether it be Forest Service, Bureau of Land Management, State of Oregon, his name is listed there, how much he buys and how much volume he buys for each year. This one is for 1972. So he is buying public timber and exporting from his private timber.

Then we do need some sort of controls to prevent this second and third decade of supply of timber from the private lands being exported to the Japanese. In other words, let's not have Oregon and Washington be a Japanese tree farm.

Thank you.

Mr. ASHLEY. How would you go about it?

Mr. EWING. A total limitation on exports to Japan or outside the United States, with a commission or council set up, recognizing that there are times to rule that there are surplus logs available and make them available for exports, as Canada does today.

Mr. ASHLEY. Mr. Gaskins?

#### **STATEMENT OF WAYNE GASKINS, WESTERN FOREST INDUSTRIES, PORTLAND, OREG.**

Mr. GASKINS. My name is Wayne Gaskins, I am a forester with Western Oregon Forest Association, headquartered in Portland, Oreg. Our membership is of the independent mills. We are not affiliated with any national forest products group. We represent ourselves and our needs.

In the case of Western Forest Industries we have approximately 150 millowners. They may own several sawmills, but there are 150 entities. The common thing is that they are all dependent largely upon public timber offerings for their raw material supply and the good management of those forests.

Again I apologize. I wasn't aware of the hearings until I arrived last night. I have been busy trying to get all my material together. I think I have been successful and I will document what I have to say.

If there are any requests for something, I would like to submit it for the record.

First, there are two or three points that have been particularly misused by the large beneficiaries of exports. I think that maybe we should clear up a little of the information.

First, it is this one of capacity. Mr. Ewing just referred to the West Coast Lumber Inspection Bureau and the fact that 75 percent of their mills, representing most of the Douglas-fir region where the impact is greatest from export, have said that they are running only one shift.

The Portland Association of Home Builders also have been hearing this from primarily the great State of Washington, and so they ran a survey. They started that survey in early February. They polled 347 mills, manufacturers of lumber, only in western Washington, western Oregon, and in California tributary to places that could be subject to the export pressure, to see if there was additional capacity that could supply America's homebuilding needs.

Of the 347 sawmill entities that they polled, they received a response from 102. This survey was not expanded to include the 347. It was contained just to those who responded. Those who responded said that they could add by all available methods 147 million feet per month or a 47 percent increase if the loss were available.

In the plywood sector, 107 plywood manufacturers were polled, again tributary to the export area. Of that 107, there were 30 who responded. Those 30 said that they could produce an additional 15.5 percent or 44.6 million square feet of plywood per month if they had the logs.

The questionnaire was constructed not to warp an answer but to say, "If you could get the logs, is the labor available? Would your people be willing to work the 9th hour, the 10th hour, the 6th day?" These were the responses: "Give us the logs and we will show you."

With your permission, I would like to submit in behalf of the Portland Home Builders the results of this survey.

Mr. ASHLEY. Fine. That will be inserted in the record if there is no objection.

[The survey referred to by Mr. Gaskins was inserted in the record by Mr. George C. Martin, president of the National Association of Home Builders and may be found on p. 162.]

Mr. GASKINS. No. 2: We have been told that there is so much timber under contract to the national forests in the log export area that it is higher than any time in history. That is documented in this lengthy 100 pages being circulated to the formation thinking member of the United States, the press, and so on.

We were fortunate to find a copy. It is half true, the way they calculate it. But you can't mix dates nor can you mix apples and oranges.

The truth of the matter is that for the national forests of Oregon and Washington we have from December 31, 1971, to December 31, 1972, decreased the amount of timber under contract to the U.S. Forest Service by 1.6 billion feet, log scale. This is a drastic drop. This is not mixing apples and oranges. It is taking the official Forest Service documents, the official Forest Service estimates of the log impact areas.

Also, if you want to expand it because you are looking at the total need not just export, there has been in the last 2 years a 4-billion-foot decrease in timber under contract from the three major regions of the Forest Service supplying our national needs of wood. That drop in 2 years went from 21 billion feet to 17 billion feet as of just last December 31.

With your permission, I would like to include a table showing that in the record.

Mr. ASHLEY. Without objection, that may be included.

[The table referred to follows:]

NATIONAL FOREST—UNCUT VOLUME UNDER CONTRACT <sup>1</sup>

[In millions of board feet Scribner]

	Total R1—R5—R6	Region 1	Region 5	Region 6
Calendar year:				
1968.....	18,565.3	4,441.2	4,049.1	10,075.0
1969.....	18,249.1	5,142.8	3,956.3	9,150.0
1970.....	21,140.6	4,902.8	5,069.4	11,168.4
1971.....	18,847.3	3,813.0	3,423.0	11,611.3
1972.....	17,042.3	3,120.0	3,917.9	10,004.4

<sup>1</sup> As of Dec. 31 of each year.

Mr. GASKINS. No. 3: We have also been hearing a great deal about the balance of trade and how, if we were to convert the materials to lumber here rather than export logs, it would hurt our balance of trade. I am a forester, not an economist. But balance of trade to me means throughout the world and all of our trading friends.

We have been trying to come to grips with this question because for each year we export logs we are exporting a tremendous amount of lumber that could be used in the Midwest, in the East, in Oregon, Washington, and California.

We hear a lot about hemlock being a weed species. I am originally a Hoosier from Indiana and we in the Midwest always did think hemlock was great. I arrived in Oregon and Washington in 1952 where they enjoy cutting the Douglas-fir and they hadn't learned yet that hemlock was good.

Thirty years ago we already knew it was good in Indiana, Ohio, and elsewhere, and we were using hemlock lumber.

I would like to quote from a letter written by Congressman Wendell Wyatt, of my home district in Oregon. He had just finished a trip to Japan where he had done an analysis of this balance-of-trade question. With his permission, which I just received, I quote:

Prior to my departure from the United States, I had reported to me that Japan planned to increase the level of 1972 imports of round logs from the United States by as much as 25 percent for the calendar year 1973.

United States exported 2.8 billion board feet of logs in 1972, 91 percent going to Japan. This is a dollar volume of \$378 million to the United States based on an average price of all species of \$135 per thousand board feet. The United States imported dimension lumber from Canada during the calendar year 1972 in substantial quantities.

The best estimate I have been able to obtain is that to place the dimension lumber that would have been manufactured from logs exported from the United States in 1972, the United States would have to import from Canada an additional 4.48 billion board feet of Canadian manufactured lumber with a dollar of \$828,800,000.

Therefore, disregarding the chip value lost in the volume of logs exported, estimated at approximately \$20 million, the net loss in balance of trade as a result of log exports and additional manufactured lumber imports to the United States was in excess of \$450 million.

With your permission, I would like to include this also in the record.

Mr. ASHLEY. That may be inserted into the record at this point.

[The letter referred to by Mr. Gaskins follows:]

HOUSE OF REPRESENTATIVES,  
Washington, D.C., March 9, 1973.

HON. JULIA BUTLER HANSEN,  
*Chairman, Interior Appropriations Subcommittee,*  
*House Office Building, Washington, D.C.*

DEAR MADAM CHAIRMAN: The Committee authorized me to visit Tokyo in mid-February. The purpose of my trip was to attempt to gather facts in connection with problems raised by the high price of lumber and plywood in the United States and the possible connection between this rise and the export of round logs from the United States to Japan.

#### BACKGROUND

Prior to departure I discussed the subject in considerable detail with many industry members, homebuilders, and conservationists. I also discussed the general situation with Ambassador William Eberle, the President's special trade negotiator who had been in Japan for sometime and who had just returned to Washington immediately prior to my departure.

Through personal connections and the good offices of our Embassy in Tokyo, I arranged to meet with various Japanese government officials knowledgeable in this area and with private businessmen in Tokyo. I was in Tokyo for three and one half days.

Prior to my departure from the United States I had reported to me that Japan planned to increase the level of 1972 imports of round logs from the United States by as much as 25% for calendar 1973. The United States exported 2.8 billion board feet of logs in 1972, 91% going to Japan. This is a dollar volume of \$378 million to the United States based on an average price of all species of \$135 per thousand board feet. The United States imported dimension lumber from Canada during calendar year 1972 in substantial quantities. The best estimate I have been able to obtain is that to replace the dimension lumber that would have been manufactured from logs exported from the United States in 1972, the United States would have to import from Canada an additional 4,480,000,000 board feet of Canadian manufactured lumber with a dollar value of \$828,800,000.

Therefore, disregarding chip value lost in the volume of logs exported (estimated to be approximately \$20 million), the net loss in balance of trade as a result of log exports and additional manufactured lumber imports was in excess of \$450 million. There are various arguments as to how much of the logs exported abroad could have been manufactured in the United States but it is pretty obvious that with additional shifts a substantial quantity of the exported logs could have been manufactured in the United States.

In addition to the very high lumber and plywood prices the mills in the Northwest have become almost panicked over their inability to buy logs in competition with Japan. Although most mills have an adequate supply for normal production for a month or two, they do not see where they are going to be able to obtain logs in their pipelines to maintain operations in the months ahead. The majority of small mills cannot buy logs at all or cannot afford to pay the very high prices for logs and manufacture them. Some mills have actually sold their supply of logs to the Japanese and others are considering doing so.

#### JAPAN

1. I found not evidence anywhere in Japan that there was a dramatic increase in log imports contemplated in 1973 above 1972 levels. (The 1972 level was an all-time high).

2. Our Embassy predicts a 5% reduction in log imports into Japan below the 1972 level.

3. The Japanese Importers Association and the Japanese Ministry for International Trade and Industry (MITI) predict the 1973 level of imports will be approximately the same as 1972.

4. Nearly everyone I talked to in Japan hedged predictions on the 1973 log imports by saying that the instability at that time of the relationship between the dollar and the yen was such that any predictions for 1973 could be thrown off drastically.



5. Among the Japanese officials with whom I conferred were:

Mr. Ukawa and Mr. Miyazaki, both of the Japanese Foreign Ministry.

Mr. Takashi Hosomi, advisor to the Ministry of Finance.

Mr. Yoshioka, Director for International Affairs, Ministry of Agriculture.

Mr. Hiramatsu, Director of Foreign Policy, Ministry of Agriculture.

Mr. Hiarabiachi and Mr. Inamura of the International Trade and Industry Ministry.

I also met with private trading companies and with some of the principal members of the Japanese Lumber Importers Association headed by Mr. A. Gunji.

6. Prime Minister Tanaka as a major part of his domestic program has targeted 2.4 million new housing units for Japan in 1973 (on a comparable basis the United States would build 4.8 million units).

#### CONCLUSIONS

It is not realistic to expect that the Japanese government will attempt to reduce the volume of imports of logs from the United States, particularly in the face of constant demands by the United States government for Japan to increase its volume of imports generally from the United States.

The Japanese Lumber Importers Association is a voluntary association of approximately forty members and has no power of enforcement and it is not realistic to expect that this association will agree to any effective voluntary restrictions or reductions.

Therefore, if effective action is to be taken to reduce the volume of round logs exported from the United States it must be done by either Executive or Legislative action in the United States.

A total embargo of logs from the United States to Japan would be a drastic action which would most seriously imperil both our trade relations in connection with other commodities with Japan and most certainly our general diplomatic relations with Japan at a time of utmost sensitivity. This is no time to risk a general trade war with Japan.

Most people in the wood fibre industry agree with the homebuilders and the environmentalists that it would be desirable to have an immediate embargo on export of logs from all Federal lands out of the United States (this would affect less than 10% of the total log exports).

My personal feeling is that hearings should be held in the House in the very near future to attempt to find a tolerable level of logs exported out of the United States—a level which neither country would much like but hopefully a level with which both countries could live.

My horseback feeling is that this level should be substantially below the all-time high 1972 level and that at least some of this reduction could be recaptured by the Japanese in the form of manufactured lumber.

Prior to talking to any Japanese officials, I consulted with the United States Ambassador in Tokyo, with Minister Les Edmond and prior to departure from Japan I spent about an hour discussing the problem with United States Ambassador Ingersoll. I was extremely careful in all my discussions in Japan to first explain to everyone that I was speaking solely as one individual Member of Congress, that I did not represent the views of any committee or of the Congress and I did not represent the views of the Administration.

In conclusion I would say that another reservation I have against a total embargo on log exports, as has been suggested by some legislation, would be getting the government into this business, particularly where the government would have to decide on a case by case basis whether a given sale of timber could go into export.

The very obvious long range solution to the high price of lumber and plywood (and logs) is a quantum jump in reforestation efforts on the national forests and adequate budgeting for intensive management of our national forest commercial timberlands. We have nearly five million acres of commercial timberland in the national forests alone capable of reforestation and not being reforested. The Forest Service estimates that at the present rate of reforestation it will take us fifty years to catch up with this backlog. We could raise an entire generation of trees in this period of time. A ten-year crash program of reforestation which I have been advocating with a funding level in the neighborhood of \$150 million would permit this job to be done and would provide a substantial amount of the wood fibre which we now know for certain we will need in the years ahead. It is an established fact that the more we spend on management of our national forests, the greater is the return to the govern-

ment. Reforestation would have strong support from everyone including conservationists, homebuilders and the industry.

Instead of attempting such a program the OMB froze the \$3 million which the Interior Appropriations Subcommittee added for reforestation in fiscal 1973 (leaving approximately \$18 million) and in addition the OMB has failed to request the funding for the sale of 300 million board feet of salvage timber requested to be harvested by the President almost a year ago.

A major flaw in the Forest Service appropriation process is that these expenditures to develop a short supply renewable natural resource are treated exactly like any of the other federal expenditures, so many of which are a one-way flow from the federal treasury.

Very truly yours,

WENDELL WYATT,  
*Member of Congress.*

Mr. GASKINS. There are a couple of other points that have been referred to, and it is part of the debunking. The question is: Why don't we cut all this timber that is under contract in the national forests? Actually, on the capacity in Oregon and Washington for the 10 billion feet of national forest lumber that we have under contract, if all of the mills were to use that volume it would last less than 1 year; we have more capacity in Oregon and Washington than that 10 billion feet.

So the question is: Why do the mills seem hesitant to go ahead and cut the timber they have under contract?

Marple's Business Roundup of February 14 has a very good statement here because they were reviewing the whole forest products crisis.

It says:

A leader in the industry whose work takes him out among mill managers shakes his head, "They are frightened. I have never seen them like this before. They are afraid to cut the logs they have in inventory because they know they cannot afford to replace them at today's prices." At stake are the jobs of thousands of men and the health of Pacific Northwest's biggest industry.

[Excerpt from Marple's Business Roundup of February 14, 1973, referred to by Mr. Gaskins, follows:]

[Excerpt from Marple's Business Roundup, Seattle, Wash., February 14, 1973]

#### IN FOREST PRODUCTS: CRITICAL SQUEEZE ON SUPPLIES; HIGHER EARNINGS IN 1972

The forest industry of the Pacific Northwest, straining to turn out lumber and plywood to meet the insistent demand of builders, has run into rough going. Prices have moved up so fast in the past month that builders across the country are forced to take a second look at their plans for the year, and continuance of these price levels will shrink the housing market.

Exporters meantime are pushing the prices of logs and standing timber far above what even today's markets for lumber and plywood can sustain. Those caught in the squeeze are the hundreds of small to middle-sized mills which depend for their raw material on purchases of logs and timber in the open market.

A leader in the industry whose work takes him out among mill managers shakes his head: "They are frightened. I have never seen them like this before. They are afraid to cut the logs they have in inventory because they know they cannot afford to replace them at today's price." At stake are the jobs of thousands of men and the health of the Pacific Northwest's biggest industry.

Look first at what's happening in markets for lumber and plywood. The requirements for wood for a record volume of residential construction kept pulling prices upward in 1972. At the same time ill-fitting price controls caused severe distortions in prices for identical commodities. Many mills held to ceilings and to cost-justified increases, but as rehandlers passed the products along and added their markups, the "free market" price came out sometimes 20% to 40% higher.

Green 2x4 fir lumber that sold 16 months ago at \$98 a thousand bd. ft. brought \$114 at the start of Phase II last June and now goes for \$185. A key item of plywood sheathing—half-inch-thick CDX—moved from \$88 in late 1971 to \$126 last June and \$190 today. Three-quarter-inch plywood concrete form rose from \$205 in late 1971 to a nominal \$285 last year and now \$435; a wholesaler interjects: "You weren't getting any at \$285; at least you can buy some now."

The increases are found at the hundreds of small to middle-sized mills which make up the bulk of the industry. Large producers continue to hold to Phase II and to increases that are cost-justified. Weyerhaeuser is at \$128 on half-inch CDX, Georgia-Pacific \$128.80. In announcing over the weekend that it was keeping to its December prices, G-P said: "The market for building materials has become chaotic because of unprecedented demand and high timber costs."

Protests are growing. The Home Builders Assn. of Metropolitan Portland, supplying information to associations across the country, figured that even before the most recent surge the cost of forest products in an average house had risen \$1,200.

Dealers are balking. A buyer for a Pacific NW retailer continues to take lumber from large mills at their relatively low ceilings, but on some plywood item says flatly: "We're not buying at these prices. We'd rather be out of stock."

Let's talk about the labor. The Pacific Northwest Forest and Range Experiment Station did a labor survey. For each thousand feet of logs exported it generates 3 man-hours of employment. For each thousand feet of those same logs put into lumber and plywood in Oregon and Washington it generates 12 man-hours of employment.

Next is the question of price. Really, what we are faced with is a situation of shortage of raw materials and high demand, high demand not only in the United States but in Japan.

For the record, I will supply a copy of an article from the latest Fortune magazine entitled, "Japan Sets Out To Remodel Itself." By 1985, according to the article, Mr. Tanaka's program will have expended \$1 trillion. I am not sure whether that is in the new yen-dollar relationship, but at any rate, \$1 trillion.

Much of this will be in building new homes for Japanese to spread the population away from the Tokyo, Osaka, and other areas of population.

They do have tremendous demand. They are projecting 1½ million housing starts for the next decade or so. The demand is there, the price pull is there, the sheltered market is there.

[The article referred to from Fortune magazine follows:]

[From Fortune magazine, March 1973]

#### JAPAN SETS OUT TO REMODEL ITSELF

THE OBSESSION WITH EXPORTS AND RAPID GROWTH IS GIVING WAY TO CONCERN FOR THE QUALITY OF LIFE. A \$1-TRILLION EFFORT IS UNDER WAY TO CLEAR UP POLLUTION, REDEPLOY INDUSTRY, AND REVAMP ATTITUDES TOWARD WORK AND LEISURE.

(By Louis Kraar)

Driven by a deep sense of national purpose, Japan has attained remarkable economic growth, a tremendous export surplus, and a commercial prowess that is the envy of the rest of the world. But gradually the Japanese are coming to realize that they have paid heavily for these achievements. Tokyo, Nagoya, and Osaka

are megalopolitan nightmares, hopelessly congested and permeated with choking fumes. The atmosphere is killing the famed cherry trees in Tokyo, and in nearby Kawasaki it is killing people as well. In a nation that ranks among the top economic powers, only 15 percent of the homes are connected to sewers.

Now Japan is at last beginning to change course. The obsession with ever rising production and high-pressure exporting is giving way to a fresh national goal. The Japanese are mobilizing to undertake a vast restructuring of the entire nation and its economy. To check the horrendous pollution and urban congestion, factories will be dispersed to the countryside and dozens of new towns will be created and linked by networks of superhighways and express railways. Above all, the objective is to improve the quality of life.

The ambitious effort, which the Japanese call "remodeling," will require an estimated investment of \$1 trillion in public and private funds. "This is the largest peacetime project in the history of mankind," says Garrett Scalera, the Tokyo representative of the Hudson Institute who has spent months analyzing the government's master plans. If Scalera's statement seems like hyperbole, it is pardonable, for the government's grand vision is already taking shape in elaborately detailed blueprints. Despite the scope of the task, the Japanese, with their exceptional ability for taking unified action toward agreed-upon goals, may well be capable of pulling it off.

Ultimately, Japan's shifting priorities should have significant impact on business and consumers around the world, especially in the U.S. By stressing exports and stinting on its own social need, the nation has, in effect, given away products to the world at low prices—and at the expense of its own people who produced the goods. The Japanese have worked hard and long, and American consumers, among others, have enjoyed the fruits of their labor. Now Japan's social objectives are becoming more like those of the U.S. and other advanced Western countries. And in the new framework of national priorities, Japanese businessmen will soon be competing on a more equal footing with Western industry. Already, the revised national goals are drastically altering the strategies of Japanese corporations in ways that will undoubtedly affect world trade in years to come.

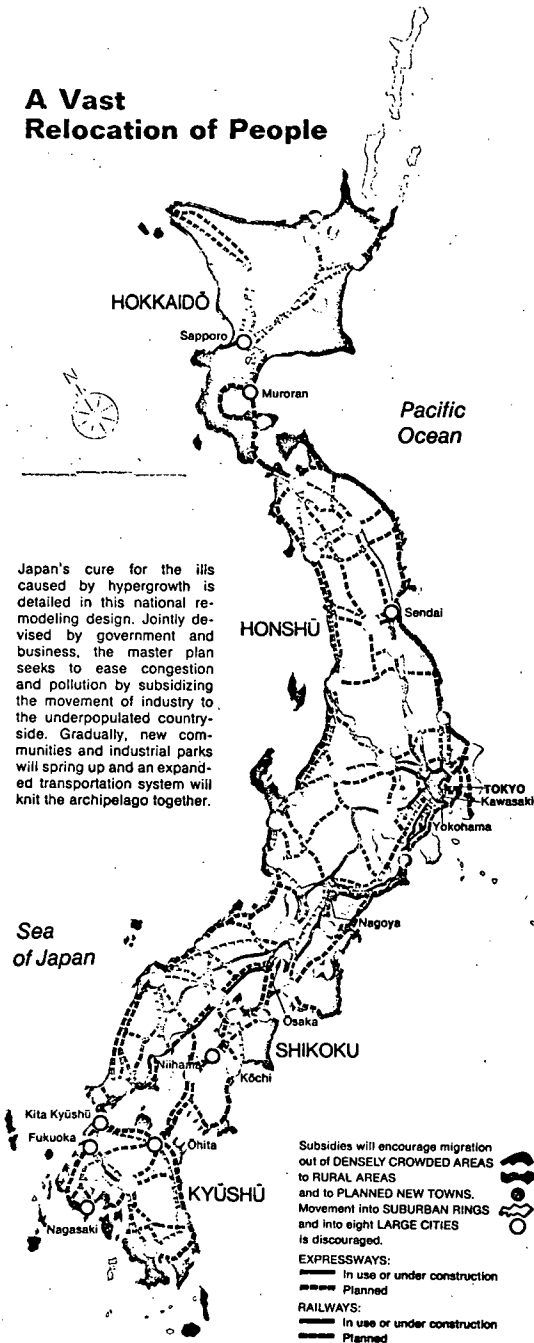
#### SUDDEN AWARENESS OF KOGAI

Prime Minister Kakuei Tanaka has made remodeling the focus of his new regime, and he is a forceful, practical man capable of directing a national transformation. Unlike most Japanese politicians, who plod upward through the government bureaucracy, he came into politics after a lucrative career as a building contractor. The youngest postwar Premier, Tanaka, fifty-four, is far more venturesome than his predecessors. Witness the ambitious target date he has set for completion of the entire transformation—1985.

Last June, Tanaka presented the grand design for social and economic change in a book, *Remodeling the Japanese Archipelago*, which became a best-seller and helped boost him to power. Although the concept is now generally termed "the Tanaka Plan," the ideas have actually been taking shape for several years within the cohesive government-business establishment. Thus there is already a consensus on the basic thrust. And while many practical problems and inevitable resistance to some features are still being overcome, both the bureaucracy and private corporations are already starting on a path to transfigure the nation.

A gradual evolution in public opinion underlies the change and makes it possible. "While our factories are the most modern, we have shabby homes, heavy pollution, and not-so-good living conditions," notes Dr. Saburo Okita, an influential government adviser, who is president of the Japan Economic Research Center. "People suddenly became aware of this." Indeed, communities have become so agitated over the ill effects of *kogai*, as the Japanese call environmental disruption, that many industries find it impossible to overcome public resistance to the building of new plants. Complaints about pollution and lawsuits against corporations have risen dramatically in the past few years. The ever worsening traffic snarls and dangers of driving in Tokyo and other big cities have reduced many proud car owners to merely displaying their autos in front of their homes,

## A Vast Relocation of People



rather than risk driving them. And lately the Japanese have been troubled to find that urban children, who are accustomed to playing on apartment steps and dodging cars in back streets, often don't know quite what to do when they are taken out to the countryside. They just sit on the grass and play cards.

#### PREPARING THE PEOPLE FOR BIG SPENDING

The industrious Japanese have long taken a special pride in their escalating production and exports, and their real personal income has gone up, too. But now many people feel cheated and say so loudly, even in a society that highly values politeness and respect. A ranking government official proudly describes the country's economic progress to a group of foreigners at a Tokyo dinner party; suddenly, a young Japanese professional woman interrupts: "How can you keep saying how rich we are? Look at our housing, our social-security system." The new consciousness evident throughout the country was accurately summed up by a Japan Broadcasting Corporation commentator in a remark that would have been unthinkable a few years ago: "While accumulating huge foreign currency reserves, which have nothing to do with our lives, we've been suffering from the lack of social necessities that really serve our welfare."

As an astute politician, Tanaka is selling his plan to the public as the means "to remove the root causes of our present troubles." Official white papers now reflect the view of many discontented Japanese and meticulously describe the wide disparity between national wealth and social welfare. It's now openly acknowledged that Japan is a backward society by many a measure of public well-being, from social-security coverage to public park space. A recent government analysis revealed that the country lags a decade behind the U.S. and Western Europe in housing, sanitation, and other essentials. Such grim deficiency reports are partly designated to rally support for the gigantic investments required to transform the nation. Government ministries have drafted a list of high-priority public works, which, in the next five years alone, would cost more than \$250 billion.

The main trouble is that much of Japan's industry and a third of its population—some 35 million people—are crammed into barely 1 percent of the country's total area. To relieve the congestion in the urban belt along the Pacific coast and to end the economic stagnation of underpopulated rural areas, the government recently formed the Corporation for the Relocation of Industry. It is headed by Keiichi Hirata, a former Vice Finance Minister, who also serves as chairman of the Comprehensive National Development Council, an influential group of economists and business leaders that sets Japan's economic priorities. Hirata boasts that the redevelopment plan "will give us a new Japan."

The relocation corporation has designated zones in relatively open areas covering 75 percent of the country, and it is beginning to lure factories into these regions from the overcrowded cities (see map on page 100). "Japan is not a socialist country, so we use indirect methods," notes Hirata. The government offers financial incentives both to the companies that relocate and to the communities into which they move. Tanaka estimates that these subsidies will have totaled from \$7 billion to \$10 billion by 1985. So far, dozens of companies have applied for loans to cover their moving costs, for accelerated depreciation on vacated buildings and equipment, and for other government assistance. Those considering a move out of Tokyo include Azuma Steel, Meidensha Electric Manufacturing, and Mitsubishi Steel. Nippon Aluminum and Yanmar Diesel are planning to leave Osaka. To encourage outlying communities to accept industry, the government offers them grants to build parks and pollution-monitoring facilities. Later, Tanaka hopes to add a "factory-expulsion tax"—a special surtax on factories that remain in congested cities.

If relocation succeeds, about half the wretched industrial jungles around the cities of Tokyo, Nagoya, and Osaka will be razed, making way for parks and housing. At the same time, existing rural towns will be painstakingly developed into model communities, each with some 250,000 people, verdant industrial parks, and strict environmental controls. Sites have been selected for more than seventy such new towns and detailed design is swiftly going ahead. The government plans to invest an average of \$1.8 billion in each new town.

It will also vastly expand the high-speed railways and auto expressways so as to bring all parts of the archipelago within a day's journey and cut the time between most major cities to an hour or less. Much of this network is already budgeted, and Japanese National Railways is currently perfecting a super-express capable of more than 300 miles an hour—twice the speed of

today's justly renowned bullet trains. "It's a rather grand design, but it's our new direction," says Hirata. "It will also involve a large amount of funds, but we're economically strong and can well afford it."

#### LAND-GRABBING AND POLITICS

Many companies, seeking quick profits from the national remodeling, have invested so heavily in real estate as to pose a threat to the plan itself. The land-buying spree began right after publication of Tanaka's book, and it has pushed prices up by as much as 50 percent in some places. The government anticipated a 12 percent increase in land values in the fiscal year ending March 31, but prices shot up an average of 20 percent in the first half. Hideo Edo, president of Mitsui Real Estate Development Co., says with great dismay: "In the past, increases were mostly in a few big cities. Now they extend from one part of the country to another." Much of the speculation involves land earmarked for new towns and factory sites, but astronomical land prices could sabotage many remodeling projects.

The land-grabbing has stirred public controversy over the Tanaka plan. During recent parliamentary elections, opponents accused the Premier of personally profiting from land deals. They also attacked the plan as favoring the interests of big business and charged that it would merely spread pollution around the islands. The Communist party of Japan, which directed its campaign at discontented city dwellers, gained seats in the election, and the Japanese press now makes a habit of calling Tanaka's leadership "disappointing."

But this judgment overlooks the fact that most of the changes Tanaka has popularized are already beginning to happen. Tanaka's Liberal Democratic party, which has ruled since its formation in 1955, has retained its overwhelming absolute majority. Moreover, since the impetus for remodeling comes from the tight-knit Japanese establishment, the plan's support and success are independent of Tanaka's political future.

In response to the sharp complaints, the government has prepared measures to curb speculation by levying new taxes on land transactions and by penalizing purchasers who hoard land rather than develop it. A stiffer environmental law is designed to prevent corporations from packing every corner of industrial sites with plants, as they often do now. Factories will be limited to 40 percent of the land within a site, leaving room for offices, breathing space, and greenery. The potent Ministry of International Trade and Industry intends to review proposed layouts for factories in the countryside and, as one official warns, "order revision, if necessary."

#### CONVERTING THE FARMERS

The dispersal of industry to the countryside promises to bring about some profound political changes that will make Japan less protectionist and benefit its consumers. Some 7,600,000 Japanese, nearly 16 percent of the labor force, work on farms, many of which are small and inefficient. Japan produces rice, to name one major crop, at three times the U.S. cost. A staunchly protectionist voting bloc, the heavily subsidized farmers bitterly oppose food imports. But in the long run, remodeling offers the government a way around this tough domestic pressure group. As manufacturing plants and new communities locate in rural areas, many farmers will be lured from the land by real-estate agents offering handsome prices and by factory jobs. Already over half the earnings of agricultural workers come from nonagricultural sources, such as seasonal employment in industry.

Tanaka is already feeding more government funds than ever into programs to meet social needs. Government spending in this fiscal year will jump 22 percent, to \$38 billion, with most of the increase going into public works, housing, and welfare programs. The budget will climb some 25 percent next year—the largest increase since World War II. Some of this spending will be used to correct a glaring shortcoming in a society that defers to seniority. Japan now devotes only 6 percent of its national income to social security, compared with 15 to 20 percent in Western European nations. Though most workers retire at fifty-five, they must wait until sixty to qualify for social-security pensions. Some workers get a lump sum of retirement pay from their employers, which helps them bridge the five-year gap, but others must live off savings or relatives. The social-security payments themselves have been ridiculously low, and poverty has contributed to a suicide rate among the elderly that is one of the highest in the world. As a start,

the Tanaka government expects to double the monthly pension to \$162, and will doubtless have to raise it further in the future.

Underscoring the nation's changing values, the government will soon come out with a new measurement of national progress—an official index of “net national welfare.” Such an index, which some economists have been recommending for the U.S., is computed by deducting from the G.N.P. all the undesirable side effects of growth, such as the many hours lost in traffic congestion and the toll of environmental pollution. Positive elements, such as increases in leisure time, may be added. “Although there are many technical difficulties in calculating N.N.W., we hope the new concept will be fully utilized in future planning instead of just G.N.P.,” says Isamu Miyazaki, counselor of the Economic Planning Agency. Because the Japanese are so zealously devoted to achieving specific objectives, the index is more than a mere gesture. Since they no longer accept ever rising G.N.P. as an assurance of well-being, they hanker for a quantitative yardstick to measure progress toward their new qualitative goals.

To enhance personal welfare, Tanaka hopes to establish a standard five-day work week by 1975. Most Japanese workers still put in a full six days, and innumerable opinion surveys show a popular demand for more leisure. But the Japanese, caught in a swirl of changing attitudes, are torn between their almost fanatical devotion to work and their genuine desire for greater leisure. Younger people are especially impatient with long hours, but the Japanese have been conditioned to demonstrate loyalty to employers by staying on the company premises late every night and giving up a part of their vacations. Executives—who are the most addicted to the old ways—resists a shorter work week on the grounds that it would raise labor costs. These ingrained attitudes, once considered assets, are now earmarked for remodeling, too. The government is pressing civil servants to take their full allotment of holidays and is urging banks to close on Saturdays.

#### LESS STEEL MORE KNOWLEDGE

Actually, the Japanese are already hotly pursuing leisure and a wider variety of life styles. Demand for the goods and services that provide these personal satisfactions has leaped, making housing, sports activities, travel, and retail sales standouts in the economy. The sudden success of bowling is symbolic; in the past year the number of bowling alleys almost doubled to 120,000, and the money invested in them for that peak year nearly equaled the amount spent for new equipment in the steel industry.

At the same time, the once spectacular growth of heavy industries has begun to slow down, and that has made Japanese businessmen even more responsive to demand in new fields. “Actually conditions, not our plans, are causing the companies to shift direction,” points out one government economist. Whatever the impetus, the change in corporate strategies is gradually reshaping the industrial structure into a new form the government favors.

Instead of the lopsided stress on steel, heavy machinery, and chemicals, there is a steady shift toward new growth areas, including modern retail distribution and technically sophisticated industries like computers and communication. Eventually, businessmen and government officials intend that these “knowledge-intensive industries” will become predominant. And by de-emphasizing the industries that have been most responsible for pollution and high exports, they hope to alleviate Japanese discontent and to lessen international concern about the country's aggressive trading practices. Tanaka maintains that the new Japanese economy will continue to generate high growth; by 1985, he estimates, Japan will have a \$1-trillion gross national product, about the size of the G.N.P. in the U.S. today.

#### STRAINING THE LIMITS OF RESOURCES

Japanese leaders could see that the old route to economic growth was fast approaching a dead end. For one thing, the heavy industries, which paced the rapid postwar expansion, have reached capacities far exceeding domestic demand. But because international resistance to Japanese exports has stiffened, companies could not dump so much of their surplus production abroad. For example, the steel industry's capacity of about 120 million metric tons became so excessive that a government-approved cartel last year limited actual output to less than 100 million tons.



Moreover, if Japan did not lessen its emphasis on heavy industry, it could face the prospect of running out of resources. Projecting past trends, Japan would consume a third of the world's trade in basic raw materials and fuel by 1980, and half the world's trade shortly thereafter. Industrial workers, already in tight supply, would become even scarcer. And pollution, already considered hazardous, would go completely out of control. "We're now on a spot where everything has to change," declares a senior official of the Economic Planning Agency.

One revealing sign that a turnabout is well under way is that 60 percent of all corporate capital expenditures is now flowing into nonmanufacturing business. This complete reversal of the past pattern indicates Japan's transition to a mature economy more strongly oriented toward services.

Corporations are turning toward fresh sources of growth with startling speed. In just two years Teijin Ltd., a producer of synthetic textiles and chemicals, has invested \$60 million in oil exploration in Iran and Nigeria, in a company to market American minicomputers in Japan, in a venture with ICI of Britain to make a herbicide, and in other new enterprises. "In such a changing society, a company that sticks too much to existing business will find it difficult to survive," observes Mitoru Abe, Teijin's senior executive vice president. A future-development division is studying many promising fields, including construction materials, leisure, and environmental control, and Teijin is determined that within a decade two-thirds of its income will come from new activities.

Many of the corporations experiencing the most spectacular growth these days are those that have made similar adjustments. When earnings began sagging several years ago, Taiheiyo Coal Mining moved into real-estate development—which proved so profitable that it has become the company's main business. Under its new name, Taiheiyo Kohatsu, the corporation has now branched out into athletic clubs, weekend villas, condominium apartments, gold courses, and psychological testing. Managing Director Rokuro Furudata, who engineered the turnabout, says: "We specialize in developing new life styles for people. It represents the direction of the economy and pays well." Another example of profitable diversification is provided by Kanebo, which formerly specialized in textiles and boosted profits 40 percent last year by putting more reliance on cosmetics, pharmaceuticals, and food products. Kanebo is now broadening its interests into housing and waste disposal to make growth fields outside textiles its main business.

Complete transformation is far tougher for companies in basic capital-intensive industries. But they are adjusting by producing higher grades and a greater range of items within existing lines. Hitachi plans to put less emphasis on heavy electrical equipment, its present mainstay, and more on communication gear and such consumer products as microwave ovens, air conditioners, and other appliances. Mitsubishi Chemical Industries, whose sales growth has tapered off of late, plans to turn its attention away from industrial chemicals and toward those used in medicines and dyestuffs. "We still expect to continue enjoying a high rate of profit," says Chairman Hideo Shinojima. "Instead of making large volumes of cheap chemicals, we'll make smaller amounts of high-volume ones." Likewise, steel manufacturers are now emphasizing the more sophisticated specialty steels, and they are pushing sales of steelmaking equipment to affiliates overseas.

Naturally, the champion exporters and the men who dominate heavy industry are reluctant to give up their positions of prowess. Yoshihiro Inayama, president of Nippon Steel, the country's leading manufacturer, grumpily denounces the new strategy. "It's wrong to lump steel with this," he says. "I think our policy makers are going to misdirect the economy." Widespread complaints about pollution are nonetheless making steel producers consider putting more facilities overseas. Nippon already has subsidiaries in six developing countries, and Inayama acknowledges that there's a clear limit to domestic expansion. "In the future," he says, "there will not be more than 150 million metric tons of crude steel produced in this country."

#### A ROLE FOR THE ALL-POWERFUL TRADERS

No enterprises are more important in the new scheme of things than the general trading companies, which finance most manufacturers and control the wholesale distribution of goods at home and abroad. The biggest trading firms have annual sales of about \$15 billion and outstanding loans to clients of some \$2 billion. Their close association with government leaders enhances their ability

to anticipate the impact of changes in national priorities. "As heavy industrial expansion and export growth slow down," says one trading-house official, "we have to assume new roles."

One of those roles is to become direct participants in fields previously left to others or completely neglected. Mitsubishi Trading Corp. recently dropped the word "trading" from its English name to reflect growing diversity. It is building shopping centers, developing towns, and devising antipollution techniques for sale to government and industry. Marubeni Corp. has plunged into supermarkets, apartment houses, athletic clubs, and the travel business. Executives are well aware that some of these ventures could fail, but figure the know-how gained could be profitably applied to later situations.

Premier Tanaka expects that many large-scale tasks, such as developing an entire region, will be managed by a potent partnership of trading houses and government bodies. Officials and businessmen generally worked in close coordination in the past, but now they are entering into formal joint ventures. Three major trading concerns, Sumitomo Shoji, Mitsubishi, and Mitsui, have joined with a local government on the main island of Honshu to organize and finance the opening of a large, relatively underpopulated area around Mount Iwate for industries, resorts, and residential communities. "This is a test case for development of a new area," says an executive of Sumitomo Shoji. The same three houses are engaged in two other ventures with local government agencies to establish industrial complexes, one at the northeastern tip of Honshu, the other on the island of Hokkaido. These are planned as preserves for power stations, refineries, and heavy industry.

#### "WE'LL GET MORE BUSINESS THAT WAY"

Rival Japanese trading firms have often teamed up abroad to win export orders, but their cooperation at home represents a breakthrough. Top executives realize that the domestic jobs ahead require all the combined skill and funds these almighty corporations can muster. For some time now, technicians and planners from four trading companies have been gathering at Sumitomo Building in Tokyo to design a \$100-million industrial waste-disposal center planned for the city. "We have to do services for social needs," declares a Sumitomo official. "Of course, we'll get more business that way, too."

Anticipating the rich opportunities in Tanaka's remodeling program, trading firms have sent their executives into government ministries to pore over official plans, and they have acted immediately on the information. Mitsubishi, noting that the transportation network would be extended toward a particular small town in western Japan, bought land at a strategic spot for an industrial park. Technical specialists from trading companies are working with local governments—free of charge—to prepare detailed blueprints for towns and industrial centers. Once work begins, they will organize the construction of roads and public buildings, then drum up business for their old role as middlemen. "We'll go to manufacturers and extend credit to build their plants, handle the construction, and arrange for selling the new factory's output," explains one trader.

Mitsui has created a subsidiary to do all phases of urban planning, and it has begun to develop a new town on reclaimed land near Tokyo, to gain experience for the tasks ahead. "We expect to be busy with new-town projects for the next twenty-five years," says a Mitsui official. "Then we'll sell our skills abroad to developing countries. That's one reason we want to make really nice towns here."

With equal foresight, Mitsui has set up a think tank called Mitsui Knowledge Industry. Its 300 technicians, economists, and social scientists are working on solutions to urban problems that will produce more business for Mitsui. One result is a system for controlling buses by computer in the suburbs; rather than plying inflexible routes, the buses would be electronically signaled by prospective passengers.

#### THE COMING PUSH FOR FOREIGN INVESTMENT

On an international level, the trading companies are leading the advance of Japanese capital into foreign markets, just as they led the big export push. The government is both cautiously easing controls on the entry of foreign capital and, for the first time, actively encouraging greater investment abroad. The new policies are an overdue reaction to Japan's large and lately embarrassing surpluses of foreign currency (some \$18 billion, by official reckoning, as of last January) and to complaints from trading partners about the nation's closed economy. Japanese corporations are now investing about \$1 billion a year in

overseas ventures, and government plans call for the outflow to exceed \$2.5 billion annually by the end of the decade (U.S. corporate foreign investment runs to about \$4 billion a year, excluding reinvested earnings).

In the two-way flow of capital the trading companies are acting as brokers, oiling the hinges of a gradually opening door. C. Itoh & Co. helped arrange General Motors' acquisition of a one-third interest in Isuzu Motors, a truck manufacturer. "We had no connections in the U.S.," explains an Isuzu official, "so Itoh served as a go-between to smooth the way and make things work." Trading companies are also beginning to invest abroad themselves. Itoh has given its New York office a free hand on decisions to invest up to \$1 million, and acquisitions so far include land in Fort Worth and a real-estate business in Brazil. Mitsubishi is developing resorts in Hawaii and plans to locally incorporate its U.S. and European branches so they will have greater autonomy.

If the momentum for remodeling continues, all these new directions promise to soothe Japan's trading partners and to allay domestic tensions. But realizing the whole design will require some painful adjustments, including the transformation of long-held attitudes. Many Japanese businessmen still consider the country poor because it lacks great natural resources and an abundance of land. Actually, Japan has achieved remarkable affluence in ways that have unnecessarily distorted its economy and worsened its style of life. Remodeling probably will take longer than the dozen years Tanaka has planned for it, but the impetus for change is clear. With its exceptional energy and purposefulness, Japan could just possibly become the first nation to erase the untoward side affects of an industrial state.

Mr. GASKINS. I think a very good example of the price pull that Japan has had upon our prices for raw materials and lumber was stated by Mr. Akira Gunji, president of the Japan-American Lumber Conference. He also represented the Japanese when we were in Tokyo in 1968 trying to bring some semblance of order out of what we now look back at as really rather small log export volume.

He also is one of the directors of the Mitsui Trading Co. Mr. Gunji's article in the Japan Lumber Journal of February 15 says:

"Some say the American timber takes an important position as structural material to foreign timbers has taken the lead in price rise in Japan. However, in fact, products of the Japanese cypress and red cedar were in extremely short supply at the end of distribution which led to the explosive price rise and caused the rapid high price in American and Soviet timbers.

Surveying the recent consumption levels, the stocks ratio at the end of the year of U.S. timbers is about 1.8 to 2 months' supply, showing a normal condition. Price rises in timber are world-wide tendency and cost increase could not be avoidable in future, both in American and Soviet timbers.

Lastly, he says:

It is necessary for the lumber millers of Japan as well as the importers to take some measure to be able to import American timber in a steady volume at a steady price for a long period.

With your permission, I would like to include that.

Mr. ASHLEY. Without objection, so ordered.

[The article referred to follows:]

[From the Japan Lumber Journal, Feb. 15, 1973]

#### LONG TERM STEADY IMPORT MEASURE FOR AMERICAN TIMBER

(By Akira Gunji, President Japan American Lumber Conference)

The high rises in timber in October and November last year became the main source for the rises in the wholesale commodities prices and were regarded as a controversial problem in bringing about a trouble to the housing construction, which is one link of the social welfares.

With the Prime Minister Tanaka's indication, the Forestry Agency took the timber price stabilization measure and we importers were called to the Agency and were demanded for import promotion of foreign timber.

It was just after when the importers and the associations suggested the statement of the views on "Opposition Against Foreign Timber Duties" to the MITI, Ministry of Agriculture & Forestry, the Ministry of Finance, the Economic Planning Agency and the Committees of the Liberal Democratic Party's Forest Policy Investigation Council on November 11.

As it was just at the time when the imports have exceeded the initial estimate by 5 million cubic meter, the demands given by the Forest Agency were of a great surprise for the importers.

At any rate, the price rises recorded this time were abnormal and unprecedented and we replied to the Agency's demands that we would make our greatest effort to increase the imports.

Several causes were regarded as the factors for high price rises in timber.

They are, in short, attributed to rapid increases in housing-loans backed up with excessive alleviation of monetary condition, increases in housing starts through rapid increases in desires for housing construction for fear of inflationary rises and demand increases in timber.

Some say that the American timber, taking an important position as structural material of foreign timbers, has taken the lead in price rise.

However, in fact, products of the Japanese Cypress and Red Cedar were extremely short in supply at the ends of the distribution, which led up to an explosive price rise and caused rapid high rises in American and Soviet timbers.

Imports of American timber last year increased about 30 percent to 11.7 million cubic meter and the stocks at the end of the year registered 1.8 million in logs, 0.18 million in lumber, totaling 1.98 million cubic meter, which was more than the stocks (1,770Mm<sup>3</sup>) at the end of 1971.

Surveying the recent consumption levels, the stocks ratio at the end of last year is about 1.8-2.0 months, showing a normal condition.

The price rises this time are different from the conventional pattern of higher price level of material log and of lower in product prices, but are characteristics as products oriented and the prices of logs have been raised followed up with the high prices in products.

Price rises in timber are world-wide tendency and costs increase would not be avoidable in future both in American and Soviet timbers.

In spite of this, the prices of products in the recent time are abnormally higher than the demand-supply relation and should be subdued sooner or later.

Price rises in plywood and lumber are enormous in the supply areas of American timber because of housing booms, and the voices for the export embargo or export restriction have been on the increase.

Furthermore, American President's Advisory Council; the committee for timbers and environments has asked Japan about future prospects on timber purchases.

Under these circumstances, GDSCFT (General Demand/Supply) Conference for Foreign Timber) has decided that the import prospects on American timber during the first half of this year should be less by 10 percent to 5.4 million cubic meter (4.4MM in logs and 1MM in lumber) compared with the demanders requests.

Today, protections of timber resources are highly considered all over the world, and imports which may give a trouble in the supply area should be avoided and purchases at excessive high prices, disregarding supply countries situations will help the lobbyists against exports.

It is necessary for the lumber millers as well as the importers to take some measure to be able to import American timber in a steady volume at a steady price for a long period.

Mr. GASKINS. Lastly, sir, we have talked about price and whether the export contributes to this demand. It certainly contributes to the demand. But it seems also very strange the National Association of Home Builders just completed a survey of the price of framing lumber and plywood, retail prices comparing January 12, 1973, to August 15, 1971.

If you would note, the highest prices of all in increase are in Oregon, Washington, and California where we have been impacted most by log exports.

[The survey referred to by Mr. Gaskins supplied by the National Association of Home Builders follows:]

LUMBER PRICE INCREASES DURING PHASES I, II, and III  
FOR ESSENTIAL HOMEBUILDING MATERIALS

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Little Rock, Arkansas	2x4 Studs Precut	160	193	200	20.6	3.6
		155	200	205	29.0	2.5
	½" CD	130	160	160	23.0	0
Redwood City, California	2x4 Studs KD H/F	123	168	195	36.6	16.1
	2x10 DF #2545	168	190	220	13.1	15.8
	½" CDX	97	169	200	74.2	18.3
Ventura	2x4 #1&2 DF 545	158	195	217	37.3	11.3
	2x10 " " "	168	210	245	25.0	16.7
	½" CDX	109	185	212	69.7	14.6
Englewood, Colorado	2x4 Studs (WW Cut)	160	173	185	8.1	6.9
	2x10 - 8	185	210	223	13.5	6.2
	½" CD Plywood	135	169	177	25.2	4.7
Wilmington, Delaware	2x4 Studs	140	205	215	46.4	4.9
	R/L up to 2x8	135	185	205	37.0	10.8
	½" CED, Ext.	150	230	215	53.3	6.5-
	2x4 -8	160	205	225	28.1	9.8
Clearwater, Florida	2x4 #2 YLP (Pres. TR.)	177	230	245	29.9	6.5
	2x4 Spruce	163	260	260	59.5	0
	2x4 Hem	155	205	260	32.3	26.8
Lehigh	2x4 Pt	192	245	245	27.6	0
	2x4 Const. Fir	170	210	210	23.5	0
	2x4 Spruce (10-20)	155	240	245	54.8	2.0
Savannah, Georgia	2x4	130	165	180	26.9	9.1
	2x6	125	165	180	32.0	9.1
Glenwood (Chicago) Illinois	2x4 Studs, Pine	148	183	203	23.7	10.9
	2x4 " WF Precut	134	182	201	35.8	10.4
	2x10 KD Spruce	148	187	203	26.4	8.6
	2x10 KD "	110	187	184	70.0	1.6-
	½" STD Ext	124	153	195	23.4	29.5
	½" CDX SP	99	178	194	79.8	9.0
Fort Wayne, Indiana	2x4 Studs, Hem, Fir	151	185		22.5	----
	½" CDX	130	185		42.3	----
Baton Rouge, Louisiana	3/8" 4x8 CD	110	135	140	22.7	3.7
	2x4 Studs, Precut	165	180	180	9.1	0
	Studs #2 Fir Precut	169	214	204	26.6	4.7-
	½" CD	123	176	168	43.1	4.6-
Shreveport						

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Baltimore, Maryland	2x4 Precut Studs	144	140	190	18.1	11.8
		195	215	240	10.3	11.6
		147	196	217	33.3	10.7
	2x4-8 Hem	125	177	210	41.6	18.6
		160	185	225	15.6	21.6
		140	155	225	10.7	45.2
		135	220	228	62.7	3.6
		150	190	215	26.7	13.2
	2x4-8	163	200	206	22.7	3.
	3/8" CD Ext	94	155	195	64.9	25.8
		110	205	230	86.4	12.2
	1/2" CD	150	235	240	56.7	2.1
		132	200	203	51.5	1.5
		125	159	217	27.2	36.5
		135	210	240	55.6	14.3
	1/2" CDX	133	226	112	69.9	?
		155	190	215	22.6	13.2
	1/2" CD Ext	137	240	247	75.2	2.9
		137		219		
Hyannis, Massachusetts	2x4 Hem	140	202	235	443	16.3
	2x6 "	140	193	215	37.7	11.4
	1/2" CDX	145	235	230	62.1	2.1-
Bloomfield Hills, (Detroit)	2x6 - 14 Fir	211	---	284	----	----
	3/8" Ext	202	---	279	----	----
Michigan Kalamazoo	2x4 Const. Spruce	174	225	245	29.3	8.9
	2x6 " "	194	199	236	2.6	18.6
Troy	2x4-8 Std & Btr Fir	174	225	213	29.3	5.3-
	1/2" CD	153	209	204	36.6	2.4-
St. Louis, Missouri	2x4 Studs	154	210	213	36.4	1.4
	2x6 8-10	143	168	175	17.5	4.2
	1/2" CD	132	179	189	35.6	5.6
Las Vegas, Nevada	2x4 Studs	135	175	202	29.6	15.4
		155	215	247	38.7	14.9
	CDX Ext	125	220	215	76.0	2.3-
		150	245	240	63.3	2.0-
Freehold, New Jersey	2x4 Studs Fir	170	230	230	35.3	0
	2x8 - 20	148	205	215	38.5	4.9
	1/2" Ext. Glue	133	230	220	72.9	4.4-

	ITEM	1971 <sup>1</sup>	1972 <sup>2</sup>	1973 <sup>3</sup>	% CHANGE 71/72	% CHANGE 72/73
Cleveland, Ohio	2x4 - 16	165	238	203	44.2	14.7-
	2x4 Studs Hem	190	223	240	17.4	7.6
	$\frac{1}{2}$ " CD	158	240	210	51.9	12.5-
		155	229	253	47.7	10.5
Eugene, Oregon	2x4 Studs	134	155	189	15.7	21.9
	2x10 Joists	157	183	211	16.6	15.3
	3/8 " Plywood	98	109	169	39.7	55.1
Portland	2x4 Studs	97	140	175	44.3	25.0
	2x10	117	185	230	58.1	24.3
	$\frac{1}{2}$ " CDX	86	210	250	144.2	19.1
Lancaster, Pennsylvania	2x4-8 Spruce	150	210	230	40.0	9.5
	2x10-12 Fir	185	250	270	35.0	8.0
	$\frac{1}{2}$ " CD Ext	135	---	205	----	----
Pittsburg	2x4 WF	184	236	236	28.3	0
	2x10 W Spruce	175	242	242	38.3	0
Houston, Texas	2x4 Studs Util	152	167	175	9.9	4.8
	2x10, 12 RL #3 YLP	145	175	160	20.7	8.6-
	#2 YLP Studs	121	150	150	24.0	0
	$\frac{1}{2}$ " CDX	101	148	170	46.5	14.9
Newport News, Virginia	2x4 Pet Studs	125	195	---	56.	----
	2x6 - 16	120	155	---	29.2	----
South Jordan, Utah	2x4 Studs	155	165	189	6.5	14.6
	2x10 - 20	149	208	229	39.6	10.1
	$\frac{1}{2}$ " Plywood	127	197	189	55.1	4.1-
Everett, Washington	2x4 Gr. Cedar	135	210	225	55.6	7.1
	2x4 Studs KD Std &	125	150	155	20.0	3.3
	BTR					
Redmond	$\frac{1}{2}$ " CDX	119	158	158	32.8	0
	Studs KD STD &	135	160	160	18.5	0
	BTR					
	$\frac{1}{2}$ " CDX	150	220	---	46.7	----

1 - 3rd Quarter  
2 - 4th Quarter  
3 - 1st Quarter

Mr. GASKINS. In summary, sir, our association is opposed to all log exports that are needed to satisfy domestic needs.

We also are in favor of some sort of restraints on exports, an immediate embargo, on exports, until some semblance of order can be made out of the chaotic condition we are now in.

Thank you, sir.

Mr. ASHLEY. Thank you, Mr. Gaskins.

Mr. Rees?

Mr. REES. I will address questions generally to the panel. If there were a prohibition on exporting logs from public land, would that solve the problem? I hate to see a complete embargo because we might lose a potential market down the line.

Mr. EWING. My reaction to that is if there were just a complete embargo on public lands from 350 to zero, whatever logs the Japanese needed whether it was 350 or more would come from private lands and the private landowner would just increase his purchase of public lands and, therefore, we would be short of the timber to produce lumber for you people.

Mr. REES. What if we put in an amendment dealing with substitution?

Mr. EWING. It is very important that we have a strong, strong substitution clause involved with any sort of controls on exports from public lands.

Mr. REES. If there were a substitution clause, and you went from 350 down to zero, what, then, would be the effect on your supply?

Mr. EWING. The other gentlemen may differ with me, but the 350 to zero with a strong substitution clause is very beneficial, but we are really missing this potential supply that we need in the next decade or so from the private rancher that we are starting to encroach upon with the Japanese now.

Mr. REES. It is difficult to deal with private ranchers in an Export Control Act. You are talking about timber procedure and everything else.

Mr. EWING. I realize a total limitation on log exports is what it takes of some sort so we protect our supply first.

Mr. Chairman, I failed to do one thing. I asked Mr. Johnson, the director of my association, to accompany me, because he, himself, is a millowner and producer. If you want to specifically question a man who owns and operates a mill, he is here.

He also participated personally in the questionnaire that Mr. Martin referred to this morning of 102 mills.

Mr. REES. You have talked to the administration about relief under the Export Control Act?

Mr. EWING. Yes.

Mr. REES. Did they pay any attention or just not take any action?

Mr. EWING. We began speaking on log export controls in 1966, all the systems that we could. Again, we testified before various committees in 1969 on the high log prices. We indicated then that you have a tremendous spiral in cost and a short supply.

My testimony at that time was that if we didn't increase our supply and do something about the log export situation, we would have further increases of these spiral things, except closer together with more drastic results. This is exactly what has happened. Evidently our voice was not strong enough.



Mr. REES. This morning some of the testimony included mention of price increases ranging from 50 percent up to 199 percent for plywood, half-inch plywood, and 2 by 4's. Did this occur under phase II? If it did, why?

Mr. GASKINS. I don't have the figures with me, sir, but the giant increase was in raw materials. Much of it was cost justified—all of it where required—and it was the raw materials cost.

For example, the Forest Service appraised volumes, and we kept records of this, increased by over 50 percent from the time the controls were first implemented in August 1971 to August 1972. That was the cost of our raw materials. Our raw material logs are without controls. It just kept climbing.

If you have to bid against the Japanese and some of the unusual prices that they have been willing to bid for materials, then your raw material goes up. You have to justify the cost of your raw material to stay alive. Yes, some of it occurred before and some has occurred after.

Mr. REES. What worries me is this interrelationship of prices. Even if there were an embargo on logs, there would still be an import price for logs in Japan? This would probably have an effect on those people selling logs domestically.

Mr. GASKINS. Not if all logs are embargoed or if there is a set supply.

Mr. REES. Wouldn't there be a tendency on the part of the grower to establish a price that is near an international price?

Mr. GASKINS. Not necessarily, no. If that were the case, the growers in Japan would be establishing a price more nearly approaching ours rather than the other way around.

Mr. REES. Wouldn't that have the effect of bidding up the Canadian timber?

Mr. GASKINS. Not necessarily. It is a three-way trade. If we were to take our logs that are being exported and put them into lumber or value added, materials for materials, lumber, plywood, et cetera, then we would have less demand for the Canadian counterpart and the Japanese would be able to pick up that portion.

Mr. REES. What percentage of the timber that is cut in the Northwest and logged is from public land?

Mr. GASKINS. In the entire Northwest?

Mr. REES. Just a rough figure. One-third?

Mr. GASKINS. I would guess about two-thirds now.

Mr. EWING. Easily two-thirds. Just to speak for western Oregon alone, public timber sold in western Oregon in 1972 was 3.7 billion board feet. That is from the Bureau of Land Management and the Forest Service, 3.7 billion board feet. You had from the private lands probably about 2.5. This is western Oregon. I don't know the figures for the total Northwest. The total of the Northwest is about 10 billion board feet of all ownership.

Mr. JACKSON. There would be more cut from public lands in Oregon than in Washington.

Mr. REES. It is 3.7 billion board feet from public lands in the year?

Mr. EWING. That is western Oregon.

Mr. GASKINS. That is western Oregon only. There are a little semantics here causing problems for many of us, and particularly people who are trying to report and understand this.

Public lands can be State lands or county lands or Federal lands. There are no restrictions on the non-Federal lands. So from the Federal lands only it is well over 50 percent throughout the area.

Mr. EWING. My word for public lands was Federal in my case. I have the State separate at 207 million.

Mr. REES. If you look at your total demand and total supply under your present policies, do you think there would be any exportable surplus of logs from the Northwest?

Mr. GASKINS. Not during periods of high domestic demand.

Mr. REES. Do you think that the Japanese would still buy on a cyclical basis?

Mr. GASKINS. Certainly. When we first started this concern, the Japanese first penetrated our market in 1961—I think in 1960 they imported about 90 million and in 1961 they jumped to about 350 million and that is when we first became concerned—at that point the Japanese were supplying between 65 and 70 percent of their total national need from their own forests.

Now they are down to between 40 and 45 percent. Yes, they would be glad to buy.

Mr. REES. What is their relationship with the Soviet Union? Do they have a constant supply there?

Mr. GASKINS. They have a supply. It is not necessarily constant. The last time I was over there was about a year ago and they were having some problems getting it out of the Soviet Union. They had droughts, they have river log drives and low water in rivers cause problems.

It is a long distance to bring the material down. It is typical of much of our Lake States and central Canada timber. It is not fine quality, large, clear timber. It is slow growing, very cold climate type timber with small knots.

But there are problems. It is my understanding, though I haven't been over there, that the U.S.S.R. has now built at least one major sawmill facility there to make sure some of it is manufactured domestically.

Mr. JACKSON. We have made very, very detailed studies of the forests tributary to the two largest log exporting ports in North America, Grays Harbor, and Port Angeles.

The harvest potential in those areas is considerably greater than the local demand. The projected harvest potential is out to 2020, which was as far as we went, and it was considerably greater than the projected local demand. In Grays Harbor, if we do an honest job of managing our forests, those forests are capable of producing twice as much wood as the local industry can consume.

This is plugging in substantial growth in the domestic industry. For example, a doubling of the pulp industry; growth in the plywood segment of 11 percent per year. The growth in the lumber industry, I cannot pull out of my head.

In Port Angeles, the forests there are capable of producing in excess of 50 million cubic feet per year more than required by domestic industry. To speak in the same terms of board feet log scale, this is 300 million board feet log scale each year.

The wood is there and the wood should be harvested. In the private sector of the forest industry it is being harvested.

Relative to what is being done to protect ourselves relative to the timber that the small landowner and the farmer have, the numbers do not bear out that we are raping those forests. The inventory is accumulating faster in that sector of ownership than in any other ownership. There are some that are selling timber now which is going to export at high prices, but this is a drop in the ocean compared to the total amount that is there.

Incidentally, this is one area where the Forest Service is trying to do something. The Forest Service has one program which they know as the cooperative forest management program. It functions in every State in the country.

There are tremendous numbers of Federal and State foresters whose only purpose in life is to work with the small landowner. The Forest Service is deeply concerned about this program, and is currently having an evaluation made of the program.

The evaluation is divided into seven sections of which we have the evaluation of two sections of this program in our shop. I can say at this point, where we are virtually 8 months into the study, it is a good program and it is an effective program.

Mr. REES. I was just wondering if anything was done about establishing a quota for export. It is difficult to go into an embargo. We have a \$3 billion trade deficit with Japan.

Mr. JACKSON. We have a quota of 350 million from the Federal lands now, I believe, and that isn't being used. I think it is running about 250.

Mr. REES. How about the exports from the private land? If there were a quota for log exports rather than embargo, it might be easier to figure out your supply and demand.

Mr. JACKSON. But this would create severe problems over the long haul. It would slow down the process of rehabilitating the overmature forests which predominate in the West.

For example, in my testimony, I have numbers relative to inventory and growth. The existing inventory in the old growth forests is between two and three times as high as it should be.

Mr. EWING. I bought logs myself for seven mills from 1951 to 1958 in western Oregon, scattered throughout. I never saw a day in my life even in those days of a plentiful supply for the mill that buys public timber or the farmer's wood lot timber. We scraped and scrapped for it all the time. I don't think Mr. Johnson today finds a plentiful supply without fighting with the other guy for it.

It is true we are not exporting 350 million board feet from those public lands. It is about 260 to 280, legally. I think perhaps part of it is because it is sold in small blocks and that is excellent.

But, the private landowner is exporting much of the volume and turning around and buying public timber to replace it, which makes a shortage for us.

I want one more forecast. The volume of timber coming off the immature stands of the rancher is a drop in the bucket today, gentleman. I am just saying that this year the Japanese realize there is another source of supply. It is a fine, clean little log, with no defect. It is the type of timber they can harvest very well.

They are moving into it and I see a strong input into this type of timber. Today it is a drop in the bucket. I agree with the gentleman.

Mr. JACKSON. For example, in the national forests in western Washington and western Oregon we are growing 27 cubic feet per acre per year of wood. That is net growth. We are losing 39 cubic feet per acre per year due to mortality. Once we get those forests rehabilitated that 39 cubic feet per acre per year is growth which we can capture, which is more than a doubling.

Mr. REES. We are getting facts from both sides. It is difficult to determine how much overmaturity we have. Where is it?

Mr. JACKSON. It is in western Washington and western Oregon. Something over 40 percent of the total inventory there is in trees 30 inches and larger which are growing in stagnated old growth stands.

Mr. REES. Why hasn't it been cut?

Mr. JACKSON. The Forest Service doesn't have the environment. To some extent you people have not created the environment for the Forest Service where they can perform.

Mr. BLACKBURN. Do you mean in the form of roads?

Mr. JACKSON. In appropriations, mainly. Having provided the environment to perform, you would then have to insist that they do perform.

Mr. ASHLEY. Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

If getting confused is progress, I am moving right along on this subject matter.

I share Mr. Rees' reluctance to bring about an embargo against Japan. I know we have a problem in our domestic markets, and at the same time the balance-of-trade problem and balance-of-payments problem is with us. It is not going away. If anything, it continues to get worse.

The one thing I do gain universal agreement on is that we are making a mess of managing our own forests. I haven't heard anybody disagree with that. Maybe that is the place to begin. Now we can go from a common starting point.

Is the capacity for cutting timber being utilized completely today in the Northwest?

Mr. EWING. Are you talking about manufacturing the lumber or cutting the logs?

Mr. BLACKBURN. I am talking about cutting a tree down and getting it to a mill.

Mr. EWING. They are cutting 3 billion board feet going to Japan today as well as our supply.

Mr. BLACKBURN. As I understand from several witnesses, sawmills could increase their productivity if the logs were being delivered to their place of business.

The question I have is this: Is the capacity to cut forests and transport logs being used to its maximum now?

Mr. EWING. The major purchaser of the public timber is the mill. There are some individual loggers that buy their sales, but in most cases in the Northwest the public timber is purchased by the mill, whether it is a plywood plant or a sawmill. He, in turn, hires the logger to do the complete job of logging and so on.

We have the capacity to log our volume as well as that 3 billion volume going to Japan today. I am sure that could be increased. That

last was the top of my head and I have to tie it down. We don't work Saturdays in logging.

Mr. JACKSON. I think the logging capacity is there.

Mr. BLACKBURN. Obviously, we are logging what is going to Japan and what we are consuming or we wouldn't be shipping and we wouldn't be consuming. The question I have is: Do the loggers, themselves, have additional capacity that is not being used?

Is a logging operation a capital intense activity that requires a lot of money for a man to go into the logging business?

Mr. JACKSON. In the West, yes; particularly in the old growth. You need big, expensive equipment.

Mr. EWING. But the capacity is there.

Mr. BLACKBURN. Is there a reserve of capacity there today?

Mr. JOHNSON. Yes.

Mr. JACKSON. I think so.

Mr. BLACKBURN. Aren't we begging the question if we are saying we have a reserve capacity for logging? Why don't we direct the Forest Service to open up more of their lands for logging purposes and let the sawmills cut more lumber? We all agree it is there. We hear that trees are overmature; they ought to be cut so you can get new growth and more productivity use of the land.

Mr. REES. We tried that 3 years ago.

Mr. JACKSON. You can't command the Forest Service to sell more timber. You have to give them the tools to work with.

Mr. ASHLEY. We understand.

Mr. JOHNSON. I am Bud Johnson. I happen to be managing partner of C. & D. Lumber Co. in Riddle, Ore. Last year we produced and sold approximately 43 million board feet of lumber.

Mr. BLACKBURN. You have a sawmill?

Mr. JOHNSON. Right; a logging and sawmill operation.

In answer to this specific question as to why aren't we logging more, why aren't the Federal forests producing more, this is an example from our own recent experience. One of the primary sources of supply for our operation is the national forest in Douglas County, Ore.

Their allowable cut is approximately 380 or 390 million feet annually. Currently, during fiscal 1973, they are going to undersell their cut by about 80 million board feet, because that much volume is tied up in this current roadless area study that is being conducted. This was the involvement of the original injunction that was secured by the Sierra Club against the Forest Service for potential wilderness areas.

Mr. BLACKBURN. Now we are getting to it.

Mr. JOHNSON. Encompassed in this particular area is just about one-quarter of the land volume and one-quarter of the actual timber inventory in that national forest. Douglas County, incidentally, is the Nation's largest single timber inventory county in the Nation.

Mr. BLACKBURN. In other words, you have the capacity to cut more if they will sell more but it is tied up in a lawsuit?

Mr. JACKSON. Some of it.

Mr. JOHNSON. It was tied up in a lawsuit. It is now going through a study process, environmental statements and this kind of thing. The best estimate that we get so far from the Forest Service is that we will be very fortunate if any of that timber is sold this calendar year.

Mr. REES. I wondered where my Sierra Club dues went.

Mr. BLACKBURN. You are going to cut a lot of trees just for the pulp for those impact statements.

Mr. JOHNSON. You are absolutely right.

Mr. BLACKBURN. A lot of logging capacity is being used for paper.

Mr. JOHNSON. One of the things that bothers me specifically is that there are some national forests that are, in fact, putting up substitute sales for the sales that are being withheld because of this.

Mr. ASHLEY. Are they overcutting in those areas, overharvesting?

Mr. JOHNSON. No.

Mr. BLACKBURN. They are harvesting as effectively, as I understand, they could harvest.

Mr. EWING. You are probably aware that the Cascades runs through the middle of Oregon. The Cascades is nearly 100-percent public ownership, Forest Service; 29 percent of the public land in the Forest Service throughout the Oregon Cascades has constraints.

Mr. BLACKBURN. Are they initiated by the Forest Service?

Mr. JOHNSON. By the Forest Service and some by request. Don't get me wrong. Some we would support wholeheartedly, in talking about recreation as this morning.

Mr. JACKSON. The facts of life are that we could give the environmentalists whatever they asked for if we just well managed intensively what we have left. Really, under half of the forests that we have could meet our present needs of timber if we managed them intensively.

We are still throwing more away, down the tube, than we are harvesting on the national forests.

Mr. BLACKBURN. Let me ask you a question, Mr. Gaskins. You read from a letter from Congressman Wyatt. I am not sure I got the figures right as you read them. In his letter, how many board feet did he say we are shipping to Japan and how many will we have to import to offset those exports? You had it in board feet and in dollars.

Mr. GASKINS. He has it both ways. The logs that are exported are 2.8 billion feet for 1972.

Mr. BLACKBURN. That is how much money?

Mr. GASKINS. That is in export dollars at the average price reported by the customs people \$378 million of beneficial trade. From that 2.8 billion feet of logs, log scale, if we were to make that into lumber, we would get lumber in the equivalent of 4.5 billion feet of 2 by 4's, 2 by 6's, and the other dimensions that go into housemaking.

That material that we have to buy from Canada, not the total purchase from Canada but that we are literally sending out, if we didn't have to replace it by buying from Canada, costs us \$828.8 million.

Mr. BLACKBURN. So then you have a difference there of \$450 million.

Mr. GASKINS. In addition to that there is another \$20 million lost. If we make it in the sawmill we would have chips to make paper for impact statements.

Mr. BLACKBURN. You don't want to miss that.

Mr. GASKINS. But that leaves a trade imbalance, a tripartite trade imbalance, in excess of \$450 million that the United States is losing.

Mr. BLACKBURN. If we are talking about 2.8 billion board feet that is being exported—

Mr. GASKINS. That is log scale.

Mr. BLACKBURN. How do we translate log scale?

Mr. GASKINS. Into lumber tally.

Mr. BLACKBURN. That is where I slipped a cog somewhere.

Mr. GASKINS. When your grandfather and mine built that old barn out there, a 2 by 4 was 2 inches by 4 inches. Then it got skinned down and skinned down, so we now sell a 2 by 4 that is  $3\frac{1}{2}$  inches by  $1\frac{1}{2}$  inches. We get a little saw curve. Basically that it called overrun. It is not gravy for anyone.

The Forest Service plugs it right into the appraisal when they calculate and sell us a million feet of logs. They figure if it is a board mill about 20 percent overrun, if it is dimension they will figure 30 or 40, depending on the log size.

That is all paid for. That is what we would get in lumber tally out of log scale.

Mr. BLACKBURN. I am glad I am not in the sawmill business.

Mr. GASKINS. You should be because we are really concerned whether we are going to be or whether the Japanese are going to be right now.

Mr. BLACKBURN. We used to have a saying in Georgia, when I practiced law down there, if you didn't like a fellow you would sell him a sawmill. You could give a fellow gray hair quicker that way than anything else.

Thank you, gentlemen, for your time and testimony. I find it extremely helpful.

Mr. ASHLEY. Mr. McKinney, before I call on you, let me ask Mr. Jackson something.

Did you have a comment with respect to the imbalance of trade in this tripartite agreement?

Mr. JACKSON. No; I don't really have one I would want to make relative to that. I don't have any numbers of my own manufacture to speak of.

For the record, I would say I don't believe these numbers, I have seen them before and I have seen numbers that are widely different. I don't like any of the numbers I have seen so far.

Mr. ASHLEY. Mr. McKinney?

Mr. MCKINNEY. I would say, gentlemen, I am sorry I missed this morning. Where the Secretary of Agriculture has left me totally confused you have left be doubly muddled.

I am a Northeastern Congressman, and it is very interesting to me. We can't even get housing money in this place. I find now that when we do get housing money in my district we can't get the lumber to build the housing.

In one of our major housing projects to get the lumber the builder will have to go to Canada and contract. I find out from my own little bit of carpentry in my apartment here in Washington it is cheaper to go to Sears, Roebuck and buy a finished, painted shelf than it is to buy raw lumber and build it myself. What really bothers me is that if food prices are gouging us, you lumber people are destroying us.

If I didn't know better from economics, I would say that you all had to be in a monopolistic restraint of trade type movement, but I know there are too many of you. Something is wrong. I want to ask a couple of fast questions. Western lumber finished into board feet, is it cheaper in the Northeast than Canadian lumber or more expensive?

Taking the average finished 2 by 4, or average finished 1 by whatever you want to call it, just the average board, not fancy moldings or

anything else, is your lumber cheaper here on the east coast or is Canadian lumber cheaper? None of it is cheap. Which is the least expensive?

Mr. JOHNSON. I think they will be relatively the same price. We are dealing in the same market. Our products basically flow on a supply-demand situation. If we are shipping into an area, chances are we are in competition with lumber coming out of the South as well as lumber coming out of Canada.

Mr. JACKSON. If you want to compare a mill in British Columbia that is on the water with a mill in Washington that is on the water, if the Canadians want the business they can take it every time, just on playing the freight game.

Our boys have to operate under the restraints of the Jones Act and the Canadians don't. I think you would agree with me on this; wouldn't you?

Mr. JOHNSON. Yes.

Mr. McKINNEY. We seem to be in the same situation as oil; that Iranian and American oil are about at the same cost on the gulf coast. I am in the interesting position of having two of my political chairmen in the lumber business. They sell it.

Why is it they can't buy any American plywood? Why are they buying Korean plywood?

Mr. JACKSON. They are buying hardwood plywood. Ours is a softwood plywood business domestically. We don't have the wood to work with to make that stuff.

Mr. McKINNEY. They say there isn't American plywood to be had in any substantial quantity of any size, type, or description. Is that a true statement? Remember, this is the east coast. We suffer from a lot of maladies. We have no oil and no gas or anything else.

Mr. GASKINS. I can speak to the plywood; a document I submitted for the record a few months ago, if you are in Portland, Oreg., for half-inch plywood you pay \$250 for it. If you are in West Hartford, Conn., you pay \$230. We make it out there.

Mr. McKINNEY. Gentlemen, what is this Korean plywood being made of?

Mr. GASKINS. Philippine mahogany. Also, it comes out of Borneo. It is a finishing type of plywood, not easily interchanged with our softwood plywood.

Mr. McKINNEY. What would happen to the lumber business if Congress in its frustration with prices were to put the raw material of wood under price controls?

Mr. BLACKBURN. It is.

Mr. McKINNEY. It isn't. I am talking about if we could be intelligent enough and able to garner the votes to put food under price controls, where would we be in the lumber market?

Mr. GASKINS. If you in your wisdom were to put raw material under price controls, would you also tell the Secretary of Agriculture to put our raw material under price controls?

Mr. McKINNEY. I am talking about freezing it at the farm, so to speak, freezing it at the manufacturing level and freezing it at the selling level.

Mr. GASKINS. I think you would slow down our building program and you would vastly expedite Japan's building program.



Mr. McKINNEY. What if we coupled this freeze with an embargo or if not an embargo a very severe limitation on exports?

Mr. GASKINS. I think you would at least have wood for your American homes.

Mr. EWING. You are talking about the freeze of price on the logs?

Mr. McKINNEY. Right now the reason lumber has gotten away with its prices is because we didn't under phase II freeze farm raw material. Lumber is considered a farm raw material.

In my estimation, in some places an increase of 195.

Mr. EWING. The lumber but not the logs.

Mr. McKINNEY. Yes. We are well aware of how it works. As long as you can justify the ball park, you can build it. That is what you have done. What I am simply saying is if we very severely limit the export of timber and we freeze the price, what are we going to do to the lumber market?

We have a wonderful combination now of the highest prices in history and no lumber in the Northeast. We are trying to solve that problem.

Mr. EWING. I think you have to be honest with one thing. We can increase our supply 20 percent or whatever it is, or 30 percent as others have said, and we have. We have increased some 15 percent last year over the year before, with the same members, and we can still increase it another 20. There isn't any doubt in my mind that the demand has built up so strong right now that it is greater than the supply.

I don't care what you freeze these prices at of the raw material, but you are going to have the demand. This is really a competitive market where you sell at auction every day. I can't in good conscience say, "This will drop the price of lumber." I am not trying to barter back at all.

But let me say one more thing. When you do freeze the price of timber—and I am talking about the public timber that we bid on—John Jones and Charlie Smith and Bud, all three are willing to pay \$90 a thousand for those logs and the forester is in the position of which one shall be given the sale to. They have to allocate. You have another problem. Everyone is willing to take the timber to manufacture.

Mr. McKINNEY. I am totally confused. Every one of you seems to say we have the wood, the facilities to cut it, and we have the people to cut it, and yet we can't get it into the Northeast and we are paying more for it than we possibly can. Nothing is killing the building industry faster.

Mr. EWING. I think you misunderstood the man to my right when he said we had the ability. It has not been offered to our mills at these rates. We have the ability if we do the kind of forest management on it.

In private timber, there are two types. We go out and bid and buy against John Jones and Charlie Smith for that timber regularly to try to buy it. The large landowner sells what he sees fit to us and sells the better logs to the Japanese.

Mr. GASKINS. You or I in building that shelf or that barn cannot afford to pay what the Japanese are paying. They are out of control. They are bidding against each other. They have passed us like we were in a model T and they were in a Rolls-Royce.

Mr. BLACKBURN. Do you mean the competition between Japanese bidders?

Mr. GASKINS. They are bidding among themselves. The most fantastic thing happened about 3 weeks ago in the State of Washington. It was a sealed bid for 300,000 feet of high-grade spruce from one of the big exporters. There were sealed bids, as I understand. The second high bidder was \$1,500 a thousand for this high-grade spruce. Mitsubishi won it at \$2,345 per thousand. They passed us at \$300. They are out of their minds. They could have bought it for \$350.

Mr. ASHLEY. They have a lot of dollars.

Mr. JACKSON. Don't leave the impression that those are the regular prices.

Mr. McKINNEY. Those prices are reflected on Wisconsin Avenue.

Could I ask one more question?

If we embargoed, just froze, stopped tomorrow, wouldn't Canada pick up the slack to the Japanese?

Mr. JACKSON. Not with logs, I don't think.

Mr. McKINNEY. Why not?

Mr. JACKSON. The Government doesn't allow it. Well, they do allow it. The vehicle they have is set up to allow it. But it goes this way: If somebody wants to sell logs for export in Canada, they have to find three domestic mills to refuse those logs at domestic prices.

Mr. McKINNEY. I will just ask each of you for a brief answer or all of you for a brief answer. Given the problem we have where the price of lumber to the builder and to the retail customer is unsupportably high, it can't be tolerated, and where it is in such short supply, if you were sitting where we are sitting what would you do about it?

Mr. EWING. I will give my answer in two phases. One of them is an immediate reallocation of appropriations to the Secretary of Agriculture where he could reallocate some money to the Forest Service for immediate preparation of more sales, and immediate action toward continued appropriations.

This is the key for good forest management, not appropriations one year and you don't know what you are going to get the next year.

If you want good management of Forest Service lands, that means you have to be able to know you reforest year after year. So some system where they are assured of funds to reinvest in those lands for future supply. Then they can increase the allowable cut. That is basic.

The second one is the long term and the first one is reallocation of appropriations right now so they can begin doing those things in the short term.

The other one is some sort of controls on logs and substitutions.

Mr. GASKINS. In my case I think I could have a three-phase program. The first one is reassign and urge the administration to use the funds in many cases that the Congress has in its wisdom given them to use and which are now impounded, the trees not being planted and a few other things.

No. 2, I would strongly urge that some orderly program of keeping the logs that are needed for domestic use here and surplus then be available for export.

Three, I would try to encourage the administration not to agree to a trade agreement that they agreed to in Hawaii last summer when Mr. Nixon and Mr. Tanaka met, because the administration then agreed that they would increase the export of U.S. logs through this Japanese fiscal year, which ends the end of this year, from \$354

million of softwood logs last year to \$452 million worth of logs this year.

Here is the page out of the trade agreement. It was difficult to get hold of.

Mr. ASHLEY. What were those figures again?

Mr. GASKINS. \$354 million worth of logs in Japan's fiscal year 1971, and the trade agreement last summer in Hawaii raised that to this fiscal year for Japan to \$452 million.

In the lumber case they agreed to increase the trade with Japan on lumber from \$48 million to \$52 million.

For anyone to say that the Japanese won't buy our lumber, that they will only take our logs, all you have to do is look at Canada. The Canadians have a tremendous business going with lots of value added. That would be my three-phase program.

Mr. REES. Is the Secretary of Commerce from South Carolina? I wondered if there was any connection between the cotton quota and this new quota.

Mr. JACKSON. I would agree with these gentlemen that we increase the appropriations and give the Forest Service the direction they need to put more timber up for sale. I would add a string to this, that they do this in the West, and in particular in Oregon.

I know the mills that these people represent very well. They are independents. They are extremely efficient mills. They are getting more out of the log than the average sawmill in the Nation is.

What I am saying is they are good converters. Probably one reason why they are or have gotten so good at getting out of the log what is in it is the competition among themselves and the short supply of public timber that they live on. They just had to get more efficient.

I think some relief that could be given particularly to western Oregon is important. In western Washington, if these gentlemen can provide me with the names of sawmills that require additional logs so they can put on additional shifts, we will see if we can get them those logs. This is one of the tasks we have set for ourselves.

The Washington Citizens for World Trade have said very definitely if they are informed of any hardship cases where mills are going out of business because they don't have logs or mills don't have the logs that are required, we will intervene and do everything we can to get them those logs.

We have a couple of examples where we have done this. One was covered on local TV, even national TV, a mill that went out of business. Charlie Bingham testified this morning that they offered them logs.

I know of another major company that said, "Tell us what you need in logs and you can have them." The man backed off and his excuse for going out of business was, "I can't get the logs." There were offers from two major companies.

Mr. ASHLEY. Are you saying the present supply is sufficient for our domestic needs through the mills and also to supply the foreign market on the basis of the agreement referred to?

Mr. JACKSON. In Washington? Definitely. I have introduced numbers in my testimony to show that we can go a lot further on the basis of what the forests can produce today.

Mr. ASHLEY. That is somewhat prospective. What you are saying absolutely flies in the face of the testimony we have been receiving, which is that the current supply situation can meet both domestic and foreign demand for the short term. That is what you seem to be saying.

Mr. JACKSON. I am talking about timber inventory, logs, not lumber. The wood is there in the forests. It is there for the taking.

Mr. ASHLEY. It does seem to me, and I think somebody put their finger on it, that we have a number of long-range solutions on which there appears to be a degree of unanimity. There are perhaps short-term remedies that are necessary which some find palatable and others don't. Isn't that about the size of it?

Mr. JACKSON. Yes.

Mr. ASHLEY. Mr. Blackburn.

Mr. BLACKBURN. One quick question: I am assuming that, in the course of increasing your production by 20 percent or 18 percent, you are using essentially the same capital equipment you have today but you are adding additional personnel?

Mr. EWING. Neither, Mr. Blackburn. Our 20 percent is increased hours for the same mills and same personnel. It is either five 10-hour days or six 9-hour days. A few of us are running overtime now.

But when I checked through, many of us are not. This is not what we could do as an ultimate if we wanted to add more shifts or do something to our equipment.

Mr. BLACKBURN. The reason I was asking that question was because if you had a wage and price control and you found you were having to pay overtime in order to get this increased production, that overtime would have to be reflected in higher prices; would it not?

Mr. EWING. Certainly; those things would have to be reflected in higher prices. But the key is that my mill or any mills that have investments want continuous operation. He only sets so much supply and that is about all he will be able to bid on and buy competitively each year, so he can buy his 42 million a year. He would be very foolhardy to increase his production and cut 50 million and have to pay such realistic prices that he cannot come out on his logs. So he will not increase the production.

Mr. ASHLEY. Mr. Rees?

Mr. REES. I just wanted to ask for some information on transportation prices for the record. The Jones Act forbids any ship other than a U.S. ship from going between U.S. ports. Mr. McKinney's problem is that in using U.S. ships the price for transportation goes up very heavily.

I am from California and we have seen this in the ICC in freight rates going from the West to the East. Does the Jones Act, plus discriminatory freight rates, affect the price of timber?

You can compare Canadian timber versus American timber.

Mr. GASKINS. To begin with, the Jones Act has very effectively taken all of the lumber production from Alaska and put it in Tokyo; every bit of it.

Mr. REES. Because you have to use U.S. bottoms?

Mr. GASKINS. To bring it to the east coast. Only when there is no more Canadian lumber to fill the gap when it gets as high as Mr.

McKinney says will the Alaskan lumber be able to come into the market as the price goes up.

In the meantime, you already have long-term agreements with the Japanese. They like to deal in long-term agreements. By the time you have those agreements and the market does fluctuate, as we know, here in the United States, it is impossible to get any of that lumber. There is a very definite constraint as far as the east coast.

I don't think the constraint is nearly as much for California. However, I do have some bad news for your California citizens, if you can take a little more.

Arizona is under a nice blanket of snow. There is one and a half sawmills operating right now and they supply quite a bit of your California building market. With the Japanese needing our lumber from the Northwest and Arizona, shall we say, blanketed in, I think we are going to have some real problems down there in spite of the Jones Act, in spite of the freight rates. We are just not going to be able to supply it.

In going to the east coast, the Jones Act pretty well precludes, except for certain arrangements, being able to ship by water to the east coast. The Canadians pretty well control Mr. McKinney's market.

Mr. REES. Under the Jones Act, are there any American bottoms transporting that timber?

Mr. GASKINS. There are a few steel companies moving to the west coast and hauling our lumber mill products back to the east coast. Calmar is now operating ships hauling lumber to the east coast, returning with steel.

Mr. JACKSON. That is an unusual situation, bringing steel one way and lumber the other way.

Mr. REES. What would be the difference in price?

Mr. JACKSON. I don't know. I am not a freight man at all. I am sure some of these other gentlemen could tell you.

Mr. REES. Most of the Canadian timber comes from British Columbia?

Mr. GASKINS. Yes. If it comes by rail it comes by Canadian National and they kick it down at Detroit or Cleveland, wherever. In other words, every nickel of that is not to our favor in balance of trade.

Mr. REES. Canadian National is owned by the Government and has a better freight rate than we have?

Mr. GASKINS. That is right.

Mr. ASHLEY. Gentlemen, thank you very much, indeed, for your excellent testimony this afternoon. It is very much appreciated.

The subcommittee will stand adjourned until 10 o'clock tomorrow morning.

[Whereupon, at 3:55 p.m., the subcommittee recessed, to reconvene at 10 a.m., Thursday, March 22, 1973.]

## SHORT SUPPLY/ANTI-INFLATION EXPORT CONTROLS

THURSDAY, MARCH 22, 1973

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to call, at 10:15 a.m., in room 2222, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman of the subcommittee), presiding.

Present: Representatives Ashley, Rees, Mitchell, St Germain, Hanna, Koch, Moakley, Sullivan, and Frenzel.

Mr. ASHLEY. The subcommittee will come to order.

Today we continue hearings on H.R. 5769, legislation designed to protect the domestic economy from the excessive export of material and commodities, and thus to reduce the domestic inflationary impact of foreign demand.

The ineffective implementation of export controls was dramatically brought to the fore last year in discussions which some Members of Congress had with Soviet officials subsequent to their extraordinarily large wheat purchases. The Soviets reminded us that we had not learned the lesson that the Canadian and Australian Governments and grain producers had learned. There, the Government has established a central marketing agency through which foreign purchasers must deal. This enables the Government, the exporters, and the producers in those countries to know precisely the kind and amount of grain being purchased by foreign buyers at any given time. By contrast, the Soviet grain buyers are able to come here, even now, and approach our private grain exporting companies individually to make deals without sufficient information being made available to both the processors and the users of essential foodstuffs. The result has been a sharp increase in domestic prices for products made from one of life's very essentials.

With a more effective administration of export control, for which H.R. 5769 is designed, this kind of situation need not recur.

In the case of still another commodity, hides, sharp upward fluctuations, based in large part on foreign demand, have brought increased difficulty to domestic industries which process leather goods in the face of already severe international competition.

It is with such matters in mind that we take testimony today from groups which have a stake in the distribution of commodities such as these.

We hear first today from Hon. Michael Harrington, our very able colleague from the State of Massachusetts.

Mr. Harrington, we are delighted that you are here. Please feel free to proceed as you wish.

**STATEMENT OF HON. MICHAEL HARRINGTON, A REPRESENTATIVE IN CONGRESS FROM THE STATE OF MASSACHUSETTS**

Mr. HARRINGTON. Thank you, Mr. Chairman. There may be some momentary disagreement with your choice of adjectives, to giving anybody equal time that would like it in the capacity you described. But I appreciate the opportunity to come. And consonant with the ground rules which have been established, I would like to talk very briefly to the problem, which is a congressional specialty, and one of mine in particular.

If I do say so myself, I have developed an enforced expertise in a field that would broadly be described as the leather and shoe industry, which is 350,000 strong in Massachusetts, and which in general has an impact on most of the other New England States to lesser but still significant degrees.

As one who broadly approached the subject in 1969, and was inclined to not support the traditionally protectionist attitude of the delegation, I fell under the mantle of suspicion. As a result of an attempted use of adjustment assistance, which has been tortuously slow but to a degree effective, I have been able to have adjustment assistance applied to shoe manufacturers in my congressional district. I think they comprise, along with others in New Hampshire, perhaps the total of adjustment assistance under the Trade Act of 1962 in the country.

With that background in mind, and knowing that that is only piecemeal and not a solution to a relatively small national industry which numbers under a half million people in different parts of the country, the problem that we faced with imports was compounded by a worldwide shortage of hides which began to materialize in substantial fashion a couple of years ago, and became so pronounced that, in addition to the onslaught of imports, the problem of survival for those who did survive the import activity was heavily increased or affected by an inability to buy competitively the basic material used in the manufacture of shoes.

This led to a series of meetings and to executive branch responsibility in the early summer of 1972, imposing a level of restriction on the export of hides, which unfortunately lasted a relatively short period, I think perhaps 6 weeks.

Thereafter, with the passage of the Curtis-Gonzalez amendment, we found ourselves back to the status quo antibellum, and we now find ourselves with some indication that perhaps there is room for perspective optimism, not feeling that the problem has been dealt with either specifically or broadly enough. I welcome the chance this morning to come into the overview and give you the problem we have in shoe and leather.

I will introduce if I may for the record a series of letters from manufacturers of leather and shoes in my district to document their plight, and to hope that out of this will not come, not necessarily a narrow piece of legislation dealing with just our problem, but legislation which in general will attempt to deal with the problem created for ourselves

as examples of an increasing problem the country itself faces. We welcome any assistance members of the committee could give in the solution of something we obviously can't solve by ourselves, but which I am told is endemic to an increasing number of affected industries.

I would like, if I could, to make part of the record, with your permission, the letters from the manufacturers that I have alluded to you, and thank you for the chance to have a hearing in part dealing with the legislation I have introduced.

Mr. ASHLEY. Without objection those letters will be introduced into the record at the conclusion of Mr. Harrington's testimony.

Mr. HARRINGTON. Fine.

Since I have been told that more detailed information would be provided by the trade associations involved, I wanted to leave it there. There is no prepared testimony. We would be glad to cooperate at the staff level with the committee in providing them with information which may be of use in the development of the legislation. But I don't think in general I can add anything more specific for the problem beyond documenting to a degree the impact on the congressional district both in the effect on employment and the effect overall on the cost of the end product or the end result of the need for the use of hides.

At this time I would relinquish the rest of my time to the trade association people who are here.

Mr. ASHLEY. Thank you very much indeed, Congressman, for being with us.

I know that the shoe industry in particular is one that has been very severely impacted in recent years. It is a matter of very considerable concern to you and to other northeastern Congressmen, as well as to many of us.

I wonder if you have noticed—I know that the control on hide exports was a very short lived one—since the adoption last year of the Gonzalez amendment—which, of course, had the effect of impeding the exercise of controls by the administration on hides as well as other agricultural products, what kind of an impact has that had on the specific companies that you are familiar with?

Mr. HARRINGTON. We have some statistics which I can again make a part of the record. We find that, for instance, in three firms which I can mention, tanning companies—at Victory Tanning Co. in Peabody, production is cut 30 percent.

At Leach-Heckler of Salem, a longtime leather production firm, production is cut one-third.

Rex Leather Finishing in Peabody, reduced from 100 workers to 20.

I would say that this is indicative in a degree of the size of industry. Most of them are small manufacturers, shoe or leather manufacturers.

We have additional letters from other parts of the country. In general I think the Tanners Council will be able to provide you perhaps with a broader, specific overview.

We do have something that might be of use to you, a letter received today from Peter Flanigan, the Presidential Assistant for International Economic Affairs, which is at least a subtle departure from the expression of concern which has characterized our course with the White House on this subject post-Curtis-Gonzalez. It indicates in conclusion, unless the sentiment in the Congress has changed, that we believe that it would be somewhat fruitless for the administration to take



up the issue of export controls on cattle hides once again at this time. Prior to this we had had in general some evidence of interest, some evidence of wanting to study proposed legislation with a general expression of sympathy, in view of their position, that lasted for a 6-week period last year. But this to me, I would say, is more negative than positive in aspect as far as counting on executive branch help at this time.

[The letter referred to, from Peter M. Flanigan, Assistant to the President for International Economic Affairs, follows:]

THE WHITE HOUSE,  
Washington, March 21, 1973.

HON. MICHAEL J. HARRINGTON,  
House of Representatives,  
Washington, D.C.

DEAR MR. HARRINGTON: Thank you very much for your recent letter enclosing copies of H.R. 3639 and 3640 which permit export controls to be reinstituted on hides.

As I stated in my letter of January 3, the Administration through the imposition of export controls on hides had attacked the problem directly. However, the Congress did not agree with the Administration's action.

Therefore, unless the sentiment in the Congress has changed, we believe that it would be somewhat fruitless for the Administration to take up the issue of export controls on cattlehides once again at this time.

With warm regards,

Sincerely,

PETER M. FLANIGAN,  
Assistant to the President  
for International Economic Affairs.

MR. ASHLEY. What that seems to suggest is that it is up to Congress to demonstrate that it really didn't mean what it said last year when it adopted the Gonzalez amendment, and the administration isn't willing to be assertive with respect to congressional action that might remedy the effects of the Gonzalez amendment. Let me ask you this, if I might.

MR. HARRINGTON. I was just going to say, in the broad context of the roles between branches, over the last 6 months it is somewhat ironic that that should be the position, because the assertiveness has certainly come more from the executive from September on.

I do think it does point up, to digress further, the need for the establishment of alliances with other affected industries and not expect that we are going to be able, speaking in general for a small part of the affected area, to accomplish, without similar interest being brought into the alliance, the desired result of some restriction.

MR. ASHLEY. We heard testimony yesterday that our unimpeded exports of logs, principally to Japan, account for something in the nature of a half a billion dollars in our trade account. But the result of this, at least in part, is the importation of finished lumber product from Canada amounting to some \$800 million, with an overall net loss of something in the nature of \$450 million. I am curious as to whether the export of hides from the United States has resulted in the need for importation of hides from other sources.

MR. HARRINGTON. I assume, if I can reconstruct my high school mathematics, that this chart and graph show that that is the case.

MR. ASHLEY. I am sure that the other witnesses will get to this.

MR. HARRINGTON. Mr. Miller has indicated that he would be happy to deal with it. I think, when it comes to the interpretation of these

things, my performance on law school exams is an indication of the level of my competence.

Mr. ASHLEY. I want to hit you where you are strongest.

Mr. HARRINGTON. It was a good try, but it missed the mark.

Mr. ASHLEY. That is not the first time.

Are there any questions of Congressman Harrington?

Mr. BLACKBURN. No. But I want to express my appreciation for our colleague coming and appearing before us. I am not very familiar with hides, except the one which gets tanned every 2 years when I run for reelection.

Thank you for your testimony.

Mr. HARRINGTON. Thank you.

Mr. ASHLEY. Mr. Mitchell.

Mr. MITCHELL. It is always a delight to see Congressman Harrington.

I wonder if there is any relationship between what we are proposing now and the dollar devaluation that has just taken place. I don't know. It is clear to me that there might be some relationship. It may be that that will be explored.

Mr. ASHLEY. I think possibly the other two witnesses will get at that.

Mr. MITCHELL. Fine.

Mr. ASHLEY. Mr. Moakley.

Mr. MOAKLEY. No questions, only to commend Congressman Harrington for his usual fine presentation, and as always fighting for his district. I am sure that we will try to work out something that will help your area.

Mr. HARRINGTON. Thank you. As one who is thought to be a Congressman for the state of the world, that is nice to hear once in a while.

Mr. ASHLEY. Mr. Frenzel.

Mr. FRENZEL. Mr. Chairman, I would like to thank the Congressman for his testimony. I hope he remembers that this committee managed to withstand the Gonzalez amendment within the inner sanctums of our own chambers, but only when we got out in the battleground of the House floor was the question lost. I guess then my question would be, have you got any strategy for us this year that might enable you to pass the chairman's bill?

Mr. HARRINGTON. No. I am afraid that the strategy I employ might be a strategy which would go down hard in an institution as a whole. I don't think it would be something that would necessarily apply to the committee as such. I don't think, without linkage between this and other industries, or let's just say standing alone, that there is much likelihood of there being a reversal of a relatively close House situation, but a very decisive Senate situation last year. I assume that what might be done would be to so draft or shape legislation that a number of affected units might be included at the point where we begin to develop alliances which were not existent last year.

Mr. FRENZEL. I do take it that you come in support of H.R. 5769, the chairman's bill.

Mr. HARRINGTON. We do.

Mr. FRENZEL. You also talked about adjustment assistance, and presumably another committee of this Congress is looking into that.

Mr. HARRINGTON. I hope so. We have used it; and used it with reluctance on the part of the industry itself—which felt properly and

cynically—and I say that in charity—that adjustment assistance as structured in this and as interpreted in a very narrow sense by the Adjustment Assistance Commission was not something that would help the industry as a whole, and very often would not help affected parties to the point of being anything more than kind of posthumous help. We have been able to get the adjustment assistance for firms and keep them in business, I hope, in the northeastern part of Massachusetts. I suppose the ironic net result of that has often been to create an internal impact which has given them a competitive advantage over other firms because of either their own unwillingness or their own relative remoteness from being able to meet the tests of the language of that adjustment assistance provision and not been able to qualify.

I hope that the statement made by the chairman of the Ways and Means Committee yesterday as to his position, and today's story in the Washington Post indicating that a new priority has been assigned to the Ways and Means Committee hearings as far as what will come up in the near future, indicates that there will be a wholesale effort at revision of that portion of the bill.

Mr. FRENZEL. It is true that assistance to employees enjoys a great deal more sympathy than assistance to the firms themselves. But the 1962 Trade Act is really the problem; isn't that it? The narrow definition that adjustment assistance must be based on some negotiated trade arrangement and that makes it difficult to qualify under that act, even under any kind of interpretation?

Mr. HARRINGTON. Sir, it is very difficult. I can quarrel certainly with what I would say it has been at least until the last 2 or 3 years, the timidity of approach and the expense and use of it. It led to the Presidential initiative to breaking ties very often, which was valid and sought and appreciated. But I suspect that my philosophic bias runs more toward a more open and aggressive interpretation of that statute. I have been given all the reasons why the language doesn't allow it. I still remain somewhat skeptical that with some imagination there could not have been a more assertive usage.

But that is perhaps from my own perspectives and not in the vantage point of being a member of the Tariff Commission.

Mr. FRENZEL. Thank you, Mr. Chairman.

Mr. ASHLEY. Thank you very much indeed, Congressman. We appreciate your testimony.

Mr. HARRINGTON. May I leave these letters with the staff?

Mr. ASHLEY. Yes, you may indeed; and those will be put in the record.

[The letters from manufacturers of leather and shoes, referred to by Mr. Harrington in his statement, follow:]

SEABOARD CHEMICALS, INC.,  
Salem, Mass., March 19, 1973.

Congressman MICHAEL J. HARRINGTON,  
House of Representatives,  
Washington, D.C.

DEAR CONGRESSMAN HARRINGTON: We understand that on Thursday, March 22, the Subcommittee on International Trade of the House Banking and Currency Committee will hold hearings on the cattlehide problem.

This corporation's production is exclusively in tanning oils sold to the American tanning industry. To give you an idea of the impact lack of export controls on hides has had on this company, we have been forced to reduce our production personnel by 50% as a result of hand-to-mouth conditions in the tanneries of this country.

We strongly believe that if quotas are not set on the exportation of hides from this country that the American tanning industry and the industries that support it cannot survive.

We strongly urge you to continue your efforts for cattlehide quotas, and we request that you make this statement a permanent part of the record in the forthcoming hearing.

Very truly yours,

ROBERT DEE.

JOHN FLYNN & SONS, INC.,  
Salem, Mass., March 19, 1973.

THOMAS L. ASHLEY,  
*Chairman of the Subcommittee on International Trade.*

DEAR MR. ASHLEY: We have been alerted that you are holding hearings on the problems of the cattlehide tanning industry. We, for our economic life blood, to survive desperately need the restoration of controls on the export of hides.

The over 300% increase in the cost of our cattlehides during the past year has necessitated in a lay-off of over 50% of our people with the resulting cutback of 50% of our production. This has had a severe impact on our Company, our workers and the community merchants, etc., who depend upon economic well-being in not only our plant but other tanners in the area.

This has been primarily due to large exports of cowhides primarily to Japan and other eastern European countries, whose buying is done by the State or large trading companies who merely buy or not buy depending upon the climate, situations at that time. To cite a particular example—If we could export our leather to Japan there would be a 28% duty placement and of course there are import licenses necessary etc., etc., but when Japan exports their leather to America there is only a 6% duty placed on it. Is this what they call "Free Trade"?

In any event, we are not asking for tariffs on imported products, shoes, or any other items, all we are asking for is a preservation of our raw materials so we can continue our business and give work to our people and employment in our industry.

Cordially yours,

JOHN H. FLYNN.

LEATHER WORKERS INTERNATIONAL  
UNION OF AMERICA,  
Peabody, Mass., March 19, 1973.

Congressman MICHAEL J. HARRINGTON,  
House Office Building,  
Washington, D.C.

DEAR CONGRESSMAN HARRINGTON: In answer to your letter of March 13 re the Congressional hearing on the cattlehide problem I determined I would rather submit to you in writing what I believe the situation to be knowing you will present this information to the Subcommittee of the House Banking and Currency Committee.

As I understand it, all of the employers throughout the country are submitting data through Irving Glass, giving the statistics as to the problems cattlehide exports are causing.

I have been in touch with the locals of our International in Massachusetts, New Hampshire, Maine, New York, Pennsylvania, Illinois and Kentucky and have asked them to follow up with their individual companies to see that this is done.

I am sure you know my feeling that the hide exports problem is but another straw on the back of the leather industry. I am sure when you see the materials presented to the committee, you will become well aware of what this instant problem is doing to the leather industry. Mayor Mavroules of Peabody has been provided with all of the statistics covering this area and will appear to verbally present the same.

As I have said above, the hide exports is but another serious happening confronting the leather industry. It has caused lay-offs, short work weeks and in some cases, has brought production to a halt.

However, the overriding problem we face deals with imports of both leather and shoes and unless Congress and the President of the United States are willing to do something that will correct this situation, we, in the leather industry, have a bleak outlook.

It is impossible for us to understand how the United States can allow the imports of foreign products, at such a high abnormal rate, without at the same time calling upon those countries to allow American goods to enter their countries in the same manner as they ship to America.

Further, I will never be able to understand why West Germany, Japan, Spain and Italy are using their policies to restrict our industry from selling in their countries by the use of high tariffs, question of their countries needs and other farcial reasons.

We know, upon examination of the foreign governments' approach to their businesses, that tax writeoffs and favorable status is allowed by countries to enable them to compete unfavorably with American-made goods.

It is my feeling that unless and until President Nixon and the United States Congress tackle this problem in a forthright and energetic manner, we, in the industrial industries of America, are going to continue to suffer.

May I suggest that not only do you continue to fight for a proper hide export program, that is equitable, but you also join with Senator Hartke and Congressman Burke for passage of their legislation which will bring the balance of trade into a much brighter perspective.

Thanking you for your interest and looking forward to talking with you soon about this and other problems that are affecting the lives and income of the leather workers and their families, I am,

Sincerely,

RICHARD B. O'KEEFE,  
*International President.*

MODERN LEATHER CO.,  
*Peabody, Mass., March 19, 1973.*

Representative THOMAS L. ASHLEY,  
*Chairman, Subcommittee on International Trade, Congress of the United States, Washington, D.C.*

DEAR MR. ASHLEY: We note that on Thursday, March 22, the Subcommittee on International Trade of the House Banking and Currency Committee, will hold hearings on the cattlehide problem.

As a member of the shoe and leather industry, as well as an individual member of the tanning industry, we very strong support the restoration of controls on the export of hides, or any other measure that will accomplish the same results. The leather industry, as of the moment, is literally staggering. The basic reason for this is the dramatic rise in the price of cattlehides. The price has quadrupled in the last eighteen months. This has led to a very high leather price, and in turn, has caused an extremely sharp decline in the demand for leather in this country.

During the period mentioned, foreign competition has been purchasing all of the available hides produced and have continued to pay ever rising prices in order to purchase same.

These hides have gone to nations paying substandard wages, in many areas employing child labor, and in turn benefitting as well from special tax arrangements, offered them by their governments, in order to reduce the cost to them of the hides imported from the United States.

Prior to eighteen months ago, our company alone employed as many as 150 people. We employ as well on a subcontracting basis, as many as an additional 75 people. Today our wet end of the tannery is shut down completely. If the situation continues, our employment will drop down to zero, and in a short time, we will be out of business entirely. At this moment, for example, we are now down to 25 people, or employees and are not using the services of any outside contract work at all.

All of this is due, I assure you, to the fact that the high price of hides to domestic tanners has pushed the price of leather beyond a point where our shoe manufacturers can afford to pay for it.

For this reason, we advocate the support of controls. It is the only way that the shoe leather factories and tanneries will be able to survive.

Respectfully yours,

MELVIN J. EDINBERG, *President.*

R. J. WIDEN Co.,  
*North Adams, Mass., March 19, 1973.*

HON. MICHAEL J. HARRINGTON,  
*Cannon House Office Building,  
 Washington, D.C.*

DEAR CONGRESSMAN HARRINGTON: In response to your request for facts documenting the harm done to the tanning industry by unrestricted export of hides, may I add to your list a brief summary of the damages done to our firm and to our sister firm the E. Cummings Leather Company of Lebanon, New Hampshire, the oldest tannery in the United States.

After some ten years of increased sales, earnings, and employment through the first half of 1972, the cattlehide debacle had the following direct effect on our operations.

Sales fell nearly 50% in the past six months while earnings became negligible. Employment which had held steady for some ten years at 160 to 170 employees fell to a current figure of 120.

For ten years of solid growth our Company had gained a reputation for being one of the leading producers of high grade specialty leathers in the United States.

As soon as rampant foreign investment and speculation (much of it directly or indirectly subsidized by foreign governments) was allowed to drive our hide market to all time high levels, our domestic customers no longer could afford to pay the higher leather prices. Much to their dismay they had to look elsewhere. Substitutes were reluctantly tried with varying success. However, it is not too early to determine that much of our market has been permanently lost.

For the sake of quality the American consumer will ultimately have to pay more or rely on imported leather goods which paradoxically has been caused by the large scale purchases of United States cattlehides with the surplus of United States dollars earned from unrestricted export to the United States.

On behalf of the R. J. Widen Company and the E. Cummings Leather Company, I wish you the best of luck and our sincere thanks for your all out effort in establishing some kind of control that our industry so desperately needs.

Very truly yours,

PETER WIDEN, *President.*

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STRAUSS TANNING Co., INC.,  
*Peabody, Mass., March 17, 1973.*

HON. MICHAEL J. HARRINGTON,  
*House of Representatives,  
 Washington, D.C.*

DEAR CONGRESSMAN HARRINGTON: We have received your letter of the 13th regarding the International Trade meeting which is upcoming.

The general situation regarding the sudden and rapid increase of hide and leather prices, causing retail shoe prices to rise is well known. The resultant increase in the Cost of Living is obvious.

Specifically in terms of harm caused to firms, the following information, if useful, is offered.

1. Loss of man hours worked. Due to the scarcity and resultant high cost of raw material, man-hours of work have been lost in certain cases when material has not been available for production.

2. Loss of personnel. Due to restricted production, many of the employees have had to either afford themselves the use of the SocSecEmPLY system or leave the industry altogether in order to maintain their living standards.

It is felt that a more stable market condition would certainly afford both the tanners of our area and the shoe manufacturers, as well, an opportunity to stabilize and possibly increase production and, in its very small way, add to the growth of the general economy.

With best wishes on your efforts, we remain

Yours truly,

DAVID S. STRAUSS.

BOB-KAT LEATHER CO., INC.,  
Peabody, Mass., March 16, 1973.

MICHAEL J. HARRINGTON,  
House of Representatives,  
Washington, D.C.

DEAR MR. HARRINGTON: You probably know the problem that has been going on in the shoe and leather trade for quite some time.

First, with regards to imports, there are so many shoes being imported today, it makes it very difficult for the tanner and shoe manufacturer to compete and stay in business. I would venture to say that in the next few years, unless something is done, there will be fewer customers to deal with, and I feel sure more companies will have to cease operations.

The import of shoes is a big problem, but a greater problem is with the unrestricted export of hides. With hides being exported the market has risen to such an unrealistic figure which caused the price of leather to go up, and the price of shoes also went up at least \$2.00 to \$5.00 a pair. If we could put quotas on either importing of shoes, or exporting of hides, I feel sure that this will help the leather, shoe, and allied industries stay in business. Otherwise, in a matter of time all shoes will be imported.

Yours sincerely,

ROBERT KATZMAN.

VICTORY TANNING CORP.,  
Peabody, Mass., March 16, 1973.

Congressman MICHAEL J. HARRINGTON,  
Cannon House Office Building,  
Washington, D.C.

DEAR CONGRESSMAN HARRINGTON: Regarding the hearing of unrestricted export of hides; this is to inform you that our plant has been on a 30% production capacity since last October 1972.

We have therefore, been forced to lay-off 45 full-time employees due to the export of hides.

Yours truly,

HARRY PAGANIS, *President.*

THE MORSE BLACKING CO.,  
Peabody, Mass., March 16, 1973.

HON. MICHAEL J. HARRINGTON,  
House of Representatives,  
Washington, D.C.

DEAR SIR: I am writing you, as I did on January 24, 1973 regarding the seriousness of the cattlehide situation in our country at the present time.

The removal of controls has created a domestic labor and industrial crisis within our economy, that should be of great concern to the leaders of our country.

I sincerely trust and hope that your committee will support the efforts of all those interested in restoring controls on the export of cattlehides from our borders.

Yours sincerely,

J. ELLISON MORSE, Jr., *President.*

LEACH-HECKEL LEATHER CO.,  
Salem, Mass., March 16, 1973.

MICHAEL J. HARRINGTON,  
House of Representatives,  
Washington, D.C.

DEAR REPRESENTATIVE HARRINGTON: As our Representative in Congress, will you kindly pass on to the Chairman of the Subcommittee on International trade the following information and request that he make it a permanent part of the Record.

The Leach-Heckel Leather Corp. and its employees have, since September 1972 have been working at about two-thirds of capacity.

This, of course, has resulted in the loss of thousands of dollars per week in payroll which the employees have suffered. The regular purchases which the

Company makes from a large number of suppliers is also down in proportion to our lost production. The Company's profit situation is more than precarious. This has been an ongoing situation for the past seven months and there are indications, that unless something is done regarding the hide export situation, the cost of hides will remain at their record or near record high levels.

Some tanneries have already closed their doors due to this situation. We hope that Congress will enact appropriate measures to alleviate the conditions which have brought us to this point of desperation so that our already shrunken industry will not be further diminished by our own demise after thirty-five years in the Tanning Industry.

Yours sincerely,

NORMAN BERNSTEIN,  
*Superintendent.*  
 JAMES L. SAWYER,  
*Shop Steward Local No. 21,*  
*Leather Workers International Union, AFL-CIO.*

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REX LEATHER FINISHING CORP.,  
*Peabody, Mass., March 16, 1973.*

Congressman MICHAEL J. HARRINGTON,  
*Cannon House Office Building,*  
*Washington, D.C.*

DEAR CONGRESSMAN HARRINGTON: If the removal of controls on the export of hides did not prove anything else, it did bring one thing home, that it was very detrimental to the tanning and leather industry.

When business was on a normal basis we employed approximately 100 workers. However with the removal of export restrictions, which in turn was the cause of the rapid increase in hide prices, our business has fallen to the extent that we now have only 20 employees. Under these circumstances we definitely cannot continue in business.

This company has been in existence for over 50 years and is now fighting for its very survival. We are Contract Tanners and because of the hide situation, our customers are uncertain as to their ability to exist during these trying times. Due to the conditions that exist our future is very uncertain. We have done everything in our power to survive. The next move is up to our Government.

We must conserve our raw materials to keep our citizens employed and any industry such as ours must survive for the good of our national economy.

Very truly yours,

GUIDO V. REGIS, *President.*

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OCEAN LEATHER CORP.,  
*Newark, N.J., March 15, 1973.*

Congressman MICHAEL J. HARRINGTON,  
*House of Representatives,*  
*Washington, D.C.*

DEAR CONGRESSMAN HARRINGTON: The U.S. Leather Industry is in such a critical state that I cannot afford to miss this opportunity to state the facts. Very briefly and concisely, this is how it is:

- (1) Our tannery has been in Newark for 50 years.
- (2) We employ 150 people of which 85% are non-white and live within the City of Newark.
- (3) Our actual dollar payroll approximates \$1,500,000 annually.
- (4) In the last five years, we have modernized and expanded our physical facilities at a cost approximately \$750,000.
- (5) We buy and process approximately 1000 cattle hides each production day.
- (6) On August 16, 1971 we paid 11½¢/# average for our cattle hide.
- (7) On November 1, 1972 we were paying 42-45¢ per pound average for these same hides.
- (8) Our big volume customers (shoe manufacturers) have been forced to divert their volume items into manmade material. They will not and cannot shift back to leather for these big volume items without stable, reasonable prices for leather.
- (9) Today hides are costing us 27-29¢/# and fluctuate daily like a roller-coaster.



(10) For the first time in our history, we are operating at 50% of capacity, have laid off employees and restricting our capitol procurement severely.—

(11) The situation has become so critical that most of the leather industry is just hanging on, with no ability to change the overall conditions of this instability of their raw material; all of our blood, sweat and tears are to no avail in this type of situation.

(12) If the U.S. is to have its leather industry survive at all, it must act now to provide stability to its domestic raw material.

Cordially,

RICHARD C. BERGER,  
*Executive Vice President.*

SALEM OIL & GREASE Co.,  
*Salem, Mass., March 15, 1973.*

HON. MICHAEL J. HARRINGTON,  
*House of Representatives,*  
*Washington, D.C.*

DEAR CONGRESSMAN HARRINGTON: We have just received your letter of March 13th requesting documentation on the adverse effects of uncontrolled exports of our domestic hides.

Salem Oil & Grease Co. is an auxiliary of the Tanning Industry in that, although we don't manufacture leather itself, we do manufacture oils and fatliquors, which are an essential part of the process of producing leather. Please let me stress that our company is totally involved with the leather industry, however, as the only market for our products is the leather industry and as the fortunes of the leather industry in the U.S. fall, so do our sales.

Much has been said and much has been written about the effects of uncontrolled exportation of our domestic raw hides, but unfortunately, not much has been done to alleviate the situation. As we here in Salem see it, this problem has created a situation of, to use a much hackneyed phrase, "Double Jeopardy". First of all, there is the high cost of raw hides which is directly attributable to the supply of raw hides available to the leather industry throughout the world. The fact that the country that used to export by far the largest number of rawhides (Argentina) has slapped a total ban on exports of cattlehides and the fact that most other countries have followed suit, has left the United States in the position of being practically the only major supply of cattlehides still available on the world market. As a result, the price of hides has skyrocketed. This has resulted in extremely, if not fatally, difficult problems for our domestic leather industry, which already suffers from higher costs than any other leather industry in practically every phase of production. Naturally, this has caused our leathers to be priced at levels that do not encourage domestic shoe factories to use leather and has, in fact, been a major factor in the fantastic rise in consumption of man-made products (plastics etc.) for the construction of all parts of shoes, garments, etc., that traditionally were made with leather. This has, in turn, directly effected our business since we are, as I stated above, suppliers exclusively to the leather industry, not the plastics industry.

The second part of this problem is what happens to the hides that are exported. In many cases (specifically Japan and Taiwan, to name just two countries) these exported rawhides go to countries where the cost of labor, manufacturing, and so on, is half or even one quarter the cost in the United States. These hides are turned into shoes and other leather articles which are then re-imported into the United States and retailed at prices that our domestic manufacturers cannot meet. This results in the increasing number of business failures in the domestic shoe and allied industries, and contributes to the shrinkage of markets for domestically produced leather, and the proportionate increase in the use of manmade products.

What is inconceivable to me and all of us in the leather industry, is that by allowing the export of domestic cattlehides, the U.S. Government is contributing substantially to problems it is dedicated to wiping out. Namely, unemployment and the high cost this entails to taxpayers in welfare payments. Why? Because the leather industry is a high labor consumption industry, probably one of the highest in proportion to its size in the United States. There are still numerous hand operations involved in the production of leather and the manufacture of shoes and it seems insane to us that the U.S. Government would adopt any policy which could, and may well, destroy such an industry.

Hopefully, through the efforts of yourself and other Congressmen and Senators, something will be done to rectify this situation and to this purpose we ask that this letter be included in the permanent record not only as a statement on the part of a company which feels the pressure on a day to day basis of this problem, but as a wholehearted endorsement of your efforts to bring about strict controls on the export of raw cattle hides, if these exports cannot be stopped altogether.

Yours sincerely,

VANCE M. SMITH, *President.*

HEBB LEATHER CO., INC.,  
Danvers, Mass., March 16, 1973.

HON. MICHAEL J. HARRINGTON,  
*House of Representatives,*  
Washington, D.C.

DEAR MR. HARRINGTON: You are familiar with the efforts of tanners and shoe manufacturers to restrict the export of hides from the United States, without success.

On the other hand, the restrictions were removed with the result that hide prices were unduly advanced without benefit to the farmer or cattle raiser. The increase in hide prices resulted in unemployment in tanneries and shoe factories, and an increase in the price of shoes and leather products to all consumers, including the farmer and cattle raiser.

Another serious effect is the increased use of man-made materials imported from England, Germany and Japan, used in the manufacture of shoes. This results in a tremendous loss of leather use, and the possibility that much of this business will not be regained.

A further loss to the shoe manufacturer and tanner is due to the large import of shoes and leathers, where, if proper controls had been put into effect, we would have been exporters of shoes and leather to all parts of the world.

Facts and figures are available to substantiate all of these problems so that it is in consideration of the seriousness of the matter that action should be taken without further delay to restrict the export of raw materials from the United States, and in particular, raw hides in the hair.

Very truly yours,

GEORGE S. HEBB.

NOYMER MANUFACTURING CO.,  
Boston, Mass., March 19, 1973.

HON. THOMAS L. ASHLEY,  
*Congress of the United States,*  
Washington, D.C.

DEAR MR. ASHLEY: Congressman Michael J. Harrington has brought to our attention the fact that your Subcommittee will hold hearings, on March 22, on the cattlehide problem.

Permit us to give you our opinions on this matter, for the record, and for your guidance.

Since 1938, this company has been engaged in manufacturing and distributing all types of Personal Leather Goods and related small leather gifts. Over the years, we have enjoyed continued growth and consider ourselves sizewise, in our industry, to be somewhere in the middle. Up to very recently, we used nothing but Genuine Leather.

No need to dwell on what has happened in the leather market during the past 18 months; but we should like to indicate to you, and your Committee, the adverse effect which the uncontrolled leather market has had upon us.

Obviously, during this period, there has been no price stability—our selling prices have had to be changed almost constantly, as new leather was purchased. Since we sell directly to retailers, you can well imagine the many complaints we have had from them in this time. Not only that, but many of them have resented this—quite a few even to the point of stopping their own purchases from us (whether they went from the frying pan into the fire is not really the issue here—we lost customers).

Quite obviously, also, the mere fact that we have had to raise our prices has considerably diminished our unit volume—pure economic logic, but proven out here during the past year-and-one-half.

We are presently attempting to overcome some of this loss by shifting into man-made materials (obviously much less expensive today than leather) but this change-over is proven to be extremely costly and quite a heavy burden for the company to carry in its attempt to survive. At this writing, a successful change-over from leather to man-made is still very much of a question mark.

We are not wise enough to be able to make recommendations to you—we hope that others appearing before you (in person or by mail) as well as yourself and the members of your Committee will be able to come up with sufficient solutions to keep leather prices from rising further, hopefully to make them recede from their present levels. One thing we can tell you for certain: both ourselves as well as our customers are becoming increasingly aggravated and more and more reluctant to walk the up-escalator continually; we hope you will be able to do something constructively, soon, to bring normalcy into the leather market.

Sincerely yours,

ARTHUR A. NOYMER,  
*Vice President*

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BERMAN LEATHER CO.,  
*Boston, Mass., March 1, 1973.*

CONGRESSMAN WRIGHT PATMAN,  
*House of Representatives,*  
*Washington, D.C.*

DEAR CONGRESSMAN PATMAN: From our letterhead you will see we are engaged in the leather business as dealers and contract tanners and service as our principal field of customer, the shoe industry. I started in this business in the 30's as a young school boy with my father. I have known no other field of endeavor. In the past ten years I have witnessed so many of our customers, not only here in New England, but all over the United States disappear, go out of business. While the reasons for a company ceasing operations can be many and varied, the dominant one in the last few years has been the flood of imports, shoes produced at less than United States wage and labor standards, coming into this country and competing with our own shoes produced at higher wage costs.

Feeding this disparity of cost has been the veritable flood of our raw material, the natural hide, being exported without controls to Japan.

Japan, before the last dollar devaluation, was working with an 0.83¢ piece versus our American dollar. As they have done to the lumber industry, the wool industry, the food industry, so have they done to the hide industry. They have laid down contracts for a full year at a floating market price of the day plus a premium. They take our hides into their country. They not only produce leather but shoes and athletic goods made from leather. They come back into this country and successfully undersell our own industry.

The many companies that have gone out of business have added to the unemployment rolls. A man on the unemployment roll or taking relief is no longer in position to pay taxes. We have less taxpayers paying more people on relief.

Like many of my counterparts, the owners of the businesses, we can get out with our whole skin, we can invest in other things. We will survive. But, how about the worker? Where do the thousands of former shoe employees, and I believe today—over the last ten years—that it is an accurate figure to say where do the hundred of thousands go to get employment? I looked through a shoe directory the other day covering the State of Maine and find so many factories located in rural areas where the total population of the town is three to five thousand people. Programs for retraining when there are no other industries in the geographic area, programs to give the shoe factory financial aid after it has ceased its operations and closed its doors, are like Band-Aids after the injury.

May I exhort you to hold hearings on H.R. 3639 which has been introduced on the floor of the House by over forty Representatives. The United States of America is the only major country which is not providing its Government with any power to control the export of an invaluable raw material, its hides. Our leather industry is being destroyed at a very rapid rate. Our shoe industry is being destroyed at an exceptionally rapid rate. Our unemployment rolls are growing.

We need this bill. We need your support. May I, respectfully, add my small voice to this growing tide that is trying to hold on to its business just a little longer while waiting for our Congress to act in our behalf.

Sincerely,

IRA L. BERMAN.

HENRY LEATHER CO., INC.,  
*Peabody, Mass., March 22, 1973.*

Congressman MICHAEL J. HARRINGTON,  
*House of Representatives,*  
*Washington D.C.*

DEAR SIR: The Tanning Industry is in very dire straits due to the Government Policy on export of cattlehides. We appeal to you, to influence legislation that will be more sensible, and practical, than what now exists. The American Tanners are in a non-competitive situation due to the inability to purchase raw materials, competing against foreign government subsidized industries requiring hides.

Our factory has seen a decline of approximately 90% of its shoe leather production. Unless relief is immediately provided, the future employment of 100 leather workers is in sincere jeopardy.

Please contact, on our behalf, the Subcommittee on International Trade of the House Banking and Currence Committee, and inform them of the condition of the Tanning Industry, here in your district. The more pressure you exert for instant legislation, will aid our industry and keep good workers off the welfare rolls.

Sincerely yours,

HENRY SMIDT.

BUXTON, INC.  
*Springfield, Mass., March 23, 1973.*

Congressman MICHAEL J. HARRINGTON,  
*House of Representatives,*  
*Washington, D.C.*

DEAR CONGRESSMAN: Unfortunately, your March 13 letter to our Mr. Vaillancourt concerning the hearings on the cattlehide program just reached me so that there was no opportunity to put together a well-stated case of the damage done to our business by the so-called cattlehide problem. The salient facts, however, are:

1. Cattlehides, our raw materials, are classified as an agricultural product and as such are not subject to price controls. Our prices and profits are under price controls. In the last 18 months, average domestic steerhide and cowhide prices have more than tripled but we have only raised our prices minimally as stipulated in the various Phase regulations. A totally inequitable situation.

2. Leather accounts for approximately one-third of our product cost. If it tripled, it means our cost could go up by two-thirds, which means we would be operating deep in the red. Leather costs have not tripled because the various other supply sources—tanners, finishers, etc.—have also restricted their price increases. Our leather costs have doubled in the last 18 months, all of which has cost us millions of dollars and made us only a marginally profitable company.

3. The government of other countries, notably Argentina, Pakistan and India, have all taken action to keep their hide supplies within their respective countries to create jobs in local leather-using industries. We cannot compete with the prices offered to importers when wages are as low as 0.08¢ per hour as I am told they are in India.

4. As these above countries "save" their hides for their home industries, the United States hides will be in greater demand by the other low-labor-cost countries which do not have a hide source. With that low-labor-cost differential in their favor, they can pay far more for United States hides than can United States manufacturers.

5. If these countries, as a matter of national policy, can discourage hide exports, why can't we? Why should the hide interest be privileged to sell their hides to the highest bidder if the industries in the United States cannot raise prices so that we can compete in the bidding?

All of which is enough for one letter.

Sincerely,

WM. HENRY CLAY, JR.

Mr. BLACKBURN. Mr. Chairman, I would like to ask unanimous consent that I be allowed to submit for the record a letter from Governor Meskill of Connecticut addressed to our colleague, Stewart McKinney, relative to the matter before the committee.

Mr. ASHLEY. This is with respect to yesterday's testimony. So without objection it will be included in the appropriate place in the record.  
[The letter referred to follows:]

STATE OF CONNECTICUT,  
EXECUTIVE CHAMBERS,  
Hartford, March 15, 1973.

HON. STEWART B. MCKINNEY,  
Cannon House Office Building,  
Washington, D.C.

DEAR MR. MCKINNEY. Problems of mutual concern are facing the State of Connecticut and the home building industry because of the high price of wood products and the lack of availability of these products. Only this week, the Wall Street Journal reported price increases in lumber and wood products.

I am concerned with these problems because they have a detrimental effect on housing for Connecticut. I am also concerned because of the impact on our home building industry. As a former Congressman, I am familiar with this national problem. I realize it is not a simple one and involves railroads and log export to Japan, as well as the U.S. Forest Service policy with regard to timber harvest.

I am writing to ask your help in doing everything you can to expedite changes in Federal legislation governing the export of lumber.

Kindest personal regards.

Sincerely,

THOMAS J. MESKILL, *Governor.*

Mr. ASHLEY. Our next witnesses are Iver Olson, senior vice president, American Footwear Industries Association, and Herbert Miller, secretary, Tanners' Council of America.

Gentlemen, we are pleased that you are here this morning. Mr. Olson, would you be good enough to proceed with your testimony.

**STATEMENT OF IVER OLSON, SENIOR VICE PRESIDENT, AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION, ACCOMPANIED BY WILLIAM W. SCOTT, COUNSEL**

Mr. OLSON. Thank you, Mr. Chairman.

My name is Iver Olson. I am here today on behalf of the American Footwear Industries Association, otherwise known as AFIA. With me this morning is William W. Scott, who is our counsel.

We are here today to express support for H.R. 5769, a bill to amend the Export Administration Act of 1969 to protect the domestic economy from the excessive drain of scarce materials and commodities and reduce the inflationary impact of abnormal foreign demand. I am the senior vice president of the association and its chief economist. AFIA is a trade association representing the manufacturers of more than 95 percent of all leather footwear produced in the United States. Our industry is located in 40 States and some 230 congressional districts. Within our organization are more than 400 companies who operate over 800 plants producing leather and leather-like footwear.

Today the domestic footwear manufacturing and supply industries employ more than 300,000 persons, many of whom are located in small communities throughout this Nation. In these smaller communities the shoe manufacturer often is the major employer and its payroll is of critical importance to the local communities.

As stated, AFIA supports the present legislation because of the relief we envision that it would provide our industry from the drastic hide price increases that we have experienced over the last 2 years.

In April 1971, it became apparent to those in the leather and shoe industries that reduction of cattle hide exports from Argentina would

soon bring about a high price, low supply hide situation in the United States. The worldwide shortage of hides which resulted from the Argentinian action caused exports of cattle hides from this country to increase substantially. Our industry immediately presented the problem to the appropriate governmental agencies and requested that hide export controls be imposed.

Hide exports and prices continued to rise and still no governmental action was taken. On August 15, 1971, the President, pursuant to the Economic Stabilization Act, imposed mandatory controls on both wages and prices. Controls did not, however, restrict the prices of hides; and soon after the imposition of mandatory price controls, the price of hides more than doubled.

As a result of price controls, our industry was faced with a situation in which shoe prices were controlled, but the price of a major article used in shoes, leather, was beyond control. Finally after almost 1 year of being faced with runaway hide prices, the Secretary of Commerce imposed export controls on cattle hides on July 16, 1972.

Export controls were imposed pursuant to the Export Administration Act of 1969 which was scheduled to expire on August 1, 1972. The administration had recommended to Congress that the act be renewed without amendment. However, an amendment was attached to the legislation which provided that the Secretary of Commerce in carrying out his duties under the act shall be precluded from controlling exports of any agricultural commodity including hides and skins without the approval of the Secretary of Agriculture. The Secretary of Agriculture was precluded from giving his approval if the commodity in question is determined to be in excess of domestic requirements. The legislation, with the amendment, was passed and signed by the President on August 29, 1972. As a result, hide controls were abandoned.

The present legislation would, in effect, repeal this amendment and reimpose full export control authority with the Secretary of Commerce. H.R. 5769 would also require the Secretary of Commerce to develop forecasts of domestic demand for materials and commodities also in demand in export markets to help assure their availability on a priority basis to domestic users at stable prices. The bill would also provide for the establishment of government-industry technical committees at the request of domestic users of materials in present or prospective short supply.

Had this legislation been in existence in April 1971, we believe that the domestic shoe industry would not have been faced with the disastrous hide situation which has existed since that time.

I would now like to direct the committee's attention to the specific problems associated with hide prices and export controls.

First, the shortage of hide supplies has caused a serious disruption of the domestic hide market.

About 50 percent of the world's supply of hides—that is, 50 percent of the hides supplied to the world market—has historically been produced by the United States and Argentina. In 1971, Argentine hide exports dropped dramatically by more than 4 million pieces as a result of quota restrictions imposed by the Argentine Government in May 1971. In 1972, hide exports from Argentina were virtually in-

significant compared to earlier years, while its footwear exports to the United States increased by 54 percent.

The decrease in hide supply commencing in 1971 in the world market relative to a mounting world demand spurred tremendous increases in hide prices. The composite hide price which barely averaged 14 cents per pound during the period 1953-71, rose to 29.75 cents per pound on July 14, 1972, an increase of 112 percent within a period of 6½ months. In November 1972, the price soared to 42.75 cents per pound for an increase of 205 percent over the 1953-71 average. In recent months the price of hides has decreased somewhat but still is more than 120 percent higher than it was during the base period.

Today more and more hides are being exported from our country. In 1964, 34.6 percent of total U.S. production was exported. In 1971, 42.6 percent of the total domestic production was exported; and in 1972, 47.6 percent was exported. Under present conditions, I anticipate that at least 50 percent of total domestic production will be exported in 1973.

We believe that the present disrupted hide market and its inflationary impact could have been avoided if the amendment proposed by Mr. Ashley had been in effect in 1971. We believe that the procedures established under this legislation would have prevented the very serious consequences described above from arising.

Second, the disruption of the domestic hide market has compounded the problem of import competition for domestic footwear manufacturers.

According to the Department of Commerce, the hide price increase of about 9 cents from September 1971, to March 1972, translated into an 81-cent increase in the wholesale price of a typical children's shoe; \$2.41 in a typical pair of women's boots; and \$1.12 in a typical pair of men's shoes. A further increase in the price of hides of nearly 20 cents to 42.75 cents per pound in November 1972, accordingly created a proportionate pressure on shoe prices.

During phase 2 of the economic stabilization program, the rules of the Price Commission caused even greater disruption in the normal hides market. In June 1972, the Price Commission applied special price rules to shoes which prevented a shoe manufacturer from earning his normal return on the manufacture of shoes from leather. A shoe manufacturer was permitted to pass through leather cost increases on a dollar-for-dollar basis only. This ruling which is in effect today has generated a positive motivation for discontinuing the use of leather in American-made shoes and substituting synthetics. The impact of this development on consumer preferences for domestic footwear can only be estimated. We are forecasting that by 1975 only 50 percent of American footwear will have leather uppers, whereas in 1972, 70 percent of American footwear had leather uppers.

The U.S. shoe manufacturer had a fighting chance in 1972 to improve his lot against foreign imports. According to the Department

of Commerce, production decreased 1.6 percent in 1972 compared to a drop of 4.7 percent in 1971. Imports only increased by 10.2 percent last year compared to 10.4 percent in 1971. If it had not been for skyrocketing hide/leather prices, domestic production would undoubtedly have shown a modest increase in 1972 and imports would have been held to less than the 10.2-percent gain. The Secretary of Commerce saw the situation clearly when on July 15, 1972, he applied the short-lived export control on hides. He projected for the last 5 months of 1972 a 7.3-percent increase in domestic shoe production over the comparable 1971 period and said that domestic demand would call for an extra 638,000 hides for the March-December 1972, period over and above the comparable 1971 period. Unfortunately the demise of hide export controls precluded such a result.

Third, prolongation of the present situation will continue to aggravate the economy with respect to the U.S. deficit balance of trade, continued inflation, increasing and prolonged unemployment, and the continued erosion in U.S. footwear manufacturing capacity.

In 1972, the estimated trade deficit caused by trade in nonrubber footwear was nearly \$900 million. If we include other special kinds of footwear such as waterproof boots and shoes and sneakers, the deficit amounted to nearly \$1 billion; nearly a sixth of our 1972 deficit trade balance.

Domestic nonrubber footwear production decreased by over 115 million pairs between 1968 and 1972, while imports increased by over 111 million pairs. The number of operating factories declined from 1,083 in 1968 to 886 at the end of December 1972. During this period the number of shoe companies dropped from 675 to about 500. The foreign share of the domestic market rose from 17.7 percent in 1968 to 35.2 percent in 1972. At this rate, imports will amount to 50 percent by 1975 and the industry will virtually be wiped out by 1990.

The invasion by imports has cost 41,000 employees their jobs since 1969, and over 31,000 of those jobs were lost in the last 4 years. Many of the remaining 201,600 U.S. footwear workers may soon join the ranks of the unemployed as imports continue to mount under existing conditions. In addition to actual losses of jobs, we estimate there was a total of over 11,000 job opportunities lost in 1972 because of imports.

Many of the problems I have discussed today can be eased by the passage of H.R. 5769. Adoption of this legislation would establish the appropriate technical structure that will protect our domestic economy from the excessive drain of scarce commodities such as hides and will reduce the serious inflationary impact of abnormal demands. Such an approach will, in our view, not only benefit footwear workers, footwear manufacturers and tanners, but the consumer and the economy as well.

Thank you.

[Mr. Olson's prepared statement with attachments on behalf of the American Footwear Industries Association follows:]



STATEMENT OF IVER M. OLSON  
AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION  
BEFORE THE HOUSE COMMITTEE ON BANKING AND CURRENCY  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
TESTIMONY ON H.R. 5769

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Mr. Chairman:

My name is Iver M. Olson, and I am appearing here today on behalf of the American Footwear Industries Association [AFIA] to express the Association's support of H.R. 5769, a bill to amend the Export Administration Act of 1969 to protect the domestic economy from the excessive drain of scarce materials and commodities and reduce the inflationary impact of abnormal foreign demand. I am the Senior Vice President of the Association and its Chief Economist. AFIA is a trade association representing the manufacturers of more than 95 percent of all leather footwear produced in the United States. Our industry is located in forty states and some 230 Congressional districts. Within our organization are more than four hundred companies who operate over eight hundred plants producing leather and leather-like footwear.

Today the domestic footwear manufacturing and supply industries employ more than 300,000 persons, many of whom are located in

small communities throughout the Nation. In these smaller communities the shoe manufacturer often is the major employer and its payroll is of critical importance to the local communities.

As stated, AFIA supports the present legislation because of the relief we envision that it would provide our industry from the drastic hide price increases that we have experienced over the last two years.

In April, 1971, it became apparent to those in the leather and shoe industries that reduction of cattle hide exports from Argentina would soon bring about a high price, low-supply hide situation in the United States. The worldwide shortage of hides which resulted from the Argentinian action caused exports of cattle hides from this country to increase substantially. Our industry immediately presented the problem to the appropriate governmental agencies and requested that hide export controls be imposed.

Hide exports and prices continued to rise and still no governmental action was taken. On August 15, 1971, the President, pursuant to the Economic Stabilization Act, imposed mandatory controls on both wages and prices. Controls did not, however, restrict the prices of hides; and soon after the imposition of mandatory price controls, the price of hides more than doubled.

As a result of price controls, our industry was faced with a situation in which shoe prices were controlled, but the price of a major article used in shoes, leather, was beyond control. Finally after almost one year of being faced with runaway hide prices, the Secretary of Commerce imposed export controls on cattle hides on July 16, 1972.

Export controls were imposed pursuant to the Export Administration Act of 1969 which was scheduled to expire on August 1, 1972. The Administration had recommended to Congress that the Act be renewed without amendment. However, an amendment was attached to the legislation which provided that the Secretary of Commerce in carrying out his duties under the Act shall be precluded from controlling exports of any agricultural commodity including hides and skins without the approval of the Secretary of Agriculture. The Secretary of Agriculture was precluded from giving his approval if the commodity in question is determined to be in excess of domestic requirements. The legislation, with the amendment, was passed and signed by the President on August 29, 1972. As a result, hide controls were abandoned.

The present legislation would in effect repeal this amendment and reimpose full export control authority with the Secretary of Commerce. H.R. 5769 would also require the Secretary of Commerce to develop forecasts

of domestic demand for materials and commodities also in demand in export markets to help assure their availability on a priority basis to domestic users at stable prices. The bill would also provide for the establishment of government-industry technical committees at the request of domestic users of materials in present or prospective short supply.

Had this legislation been in existence in April, 1971, we believe that the domestic shoe industry would not have been faced with the disastrous hide situation which has existed since that time.

I would now like to direct the Committee's attention to the specific problems associated with hide prices and export controls.

I. THE SHORTAGE OF HIDE SUPPLIES HAS CAUSED A  
SERIOUS DISRUPTION OF THE DOMESTIC HIDE  
MARKET.

About 50 percent of the world's supply of hides has historically been produced by the United States and Argentina. In 1971, Argentine hide exports dropped dramatically by more than four million pieces as a result of quota restrictions imposed by the Argentine government in May, 1971. In 1972, hide exports from Argentina were virtually insignificant compared to earlier years, while its footwear exports to the United States increased by 54 percent. (Details of the U. S./Argentine hide situation appear in Attachments 1 and 2 at the end of this statement.)

The decrease in hide supply commencing in 1971 in the world market relative to a mounting world demand spurred tremendous increases in hide prices. The composite hide price which barely averaged 14 cents per pound during the period 1953-1971, rose to 29.75 cents per pound on July 14, 1972, an increase of 112 percent within a period of six and one-half months. In November, 1972, the price soared to 42.75 cents per pound for an increase of 205 percent over the 1953-1971 average. In recent months the price of hides has decreased somewhat but still is more than 120 higher than it was during the base period. (See Attachment 3.)

Today more and more hides are being exported from our country. In 1964, 34.6 percent of total U. S. production was exported. In 1971, 42.6 percent of the total domestic production was exported; and in 1972, 47.6 percent was exported. (For details, please refer to Attachment 4.) Under present conditions, I anticipate that at least 50 percent of total domestic production will be exported in 1973.

We believe that the present disrupted hide market and its inflationary impact could have been avoided if the amendment proposed by Mr. Ashley had been in effect in 1971. We believe that the procedures established under this legislation would have prevented the very serious consequences described above from arising.

II. THE DISRUPTION OF THE DOMESTIC HIDE MARKET  
HAS COMPOUNDED THE PROBLEM OF IMPORT COM-  
PETITION FOR DOMESTIC FOOTWEAR MANUFACTURERS.

According to the Department of Commerce, the hide price increase from September, 1971, to March, 1972, translated into an 81 cent increase in the wholesale price of a typical children's shoe; \$2.41 in a typical pair of women's boots; and \$1.12 in a typical pair of men's shoes. (For details, see Attachment 5.) A further increase in the price of hides of nearly 20 cents to 42.75 cents per pound in November, 1972, accordingly created a proportionate pressure on shoe prices.

During Phase II of the Economic Stabilization Program, the rules of the Price Commission caused even greater disruption in the normal hide market. In June, 1972, the Price Commission applied special price rules to shoes which prevented a shoe manufacturer from earning his normal return on the manufacture of shoes from leather. A shoe manufacturer was permitted to pass through leather cost increases on a dollar-for-dollar basis only. This ruling which is in effect today has generated a positive motivation for discontinuing the use of leather in American-made shoes and substituting synthetics. The impact of this development on consumer preferences for domestic footwear can only be estimated. We are forecasting that by 1975 only 50 percent of American footwear will have leather uppers, whereas in 1972, 70 percent of American footwear had leather uppers.

The United States shoe manufacturer had a fighting chance in 1972 to improve his lot against foreign imports. According to the Department of Commerce, production decreased 1.6 percent in 1972 compared to a drop of 4.7 percent in 1971. Imports only increased by 10.2 percent last year compared to 10.4 percent in 1971. If it had not been for skyrocketing hide/leather prices, domestic production would undoubtedly have shown a modest increase in 1972 and imports would have been held to less than the 10.2 percent gain. The Secretary of Commerce saw the situation clearly when on July 15, 1972 he applied the short-lived export control on hides. He projected for the last five months of 1972 a 7.3 percent increase in domestic shoe production over the comparable 1971 period and said that domestic demand would call for an extra 638,000 hides for the March-December, 1972, period over and above the comparable 1971 period. Unfortunately the demise of hide export controls precluded such a result.

III. PROLONGATION OF THE PRESENT SITUATION WILL CONTINUE TO AGGRAVATE THE ECONOMY WITH RESPECT TO THE U. S. DEFICIT BALANCE OF TRADE, CONTINUED INFLATION, INCREASING AND PROLONGED UNEMPLOYMENT, AND THE CONTINUED EROSION IN U. S. FOOTWEAR MANUFACTURING CAPACITY.

In 1972, the estimated trade deficit caused by trade in nonrubber footwear was nearly \$900 million. If we include other special kinds of footwear

such as waterproof boots and shoes and sneakers, the deficit amounted to nearly a billion dollars; nearly a sixth of our 1972 deficit trade balance. (See Attachment 6.)

Domestic nonrubber footwear production decreased by over 115 million pairs between 1968 and 1972, while imports increased by over 111 million pairs. (See Attachment 7.) The number of operating factories declined from 1,083 in 1968, to 886 at the end of December, 1972. (See Attachment 8.) During this period, the number of shoe companies dropped from 675 to about 500. The foreign share of the domestic market rose from 17.7 percent in 1968 to 35.2 percent in 1972. At this rate, imports will amount to 50 percent by 1975 and the industry will virtually be wiped out by 1990.

The invasion by imports has cost 41,000 employees their jobs since 1960, and over 31,000 of those jobs were lost in the last four years. (See Attachment 9.) Many of the remaining 201,600 U. S. footwear workers may soon join the ranks of the unemployed as imports continue to mount under existing conditions. In addition to actual losses of jobs, we estimate there was a total of over 110,000 job opportunities lost in 1972 because of imports. (See Attachment 10.)



\* \* \*

Many of the problems I have discussed today can be eased by passage of H.R. 5769. Adoption of this legislation would establish the appropriate technical structure that will protect our domestic economy from the excessive drain of scarce commodities such as hides and will reduce the serious inflationary impact of abnormal demands. Such an approach will in our view not only benefit footwear workers, footwear manufacturers and tanners, but the consumer and the economy as well.

Thank you.

AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION  
 1611 North Kent Street  
 Arlington, Virginia 22209  
 March 23, 1973

ANALYSIS OF THE HIDE SITUATION

		1972 vs 1971 vs 1970		
		1972	1971	1970
I.	U. S. Hide Supply (estimated slaughter).....	37.8 *	37.6	36.9
	Argentine Exports .....	1.3	3.4	7.5
	U. S. Hide Supply and Argentine Exports .....	39.1	41.0	44.4
II.	Domestic Leather Production .....	20.0	20.5	20.4
	U. S. Net Hide Exports (Exports less Imports).....	17.7	15.7	14.8
	Production and Exports .....	37.7	36.2	35.2
III.	Total I minus Total II .....	1.4	4.8	9.2

\* Estimated.

Section I of the table gives the supply picture. The U. S. hide supply (estimated slaughter) plus Argentine hide exports are combined as a pertinent indicator of the supply situation. Until 1970, this indicator of supply remained steady. In 1971 Argentine exports dropped by more than four million hides and brought down the indicated supply by 3.3 millions, in spite of increased U. S. hide supply. In 1972, the Argentine exports again dropped to an all-time low of 1.3 million, a drop of 2.1 million hides, which brought down the indicated supply by almost as much.

In Section II of the table, the domestic leather production and net hide exports, taken as a measure of demand, climbed by one million hides from 1970 to 1971. In 1972, this demand indicator increased by 1.5 million hides from 1971.

Section III, the difference between Sections I and II, shows the amount of U. S. and Argentine hides available after supplying U. S. cattlehide production and U.S. net cattlehide exports. This figure, which was steady until 1970, plunged to 4.8 millions in 1971 and 1.4 million in 1972. This is the crucial factor in the explosion of hide prices.

AMERICAN FOOTWEAR INDUSTRIES ASSOCIATION  
1611 North Kent Street  
Arlington, Virginia 22209  
March 23, 1973

U. S. AND ARGENTINE CATTLEHIDE EXPORTS - 1972

U. S. exports of hides during the year 1972 totaled 17,991,000, an increase of 12.7% over the 1971 total of 15,963,000. This increase in exports from the U.S. offset almost exactly the decline in Argentine hide exports. As a result total hide exports from the U.S. and Argentina combined, did not show any significant change in 1972 over 1971.

U. S. hide exports increased to all major areas except the Western Hemisphere. The exports to Japan increased by 22.2% and to Western Europe by 19.8%.

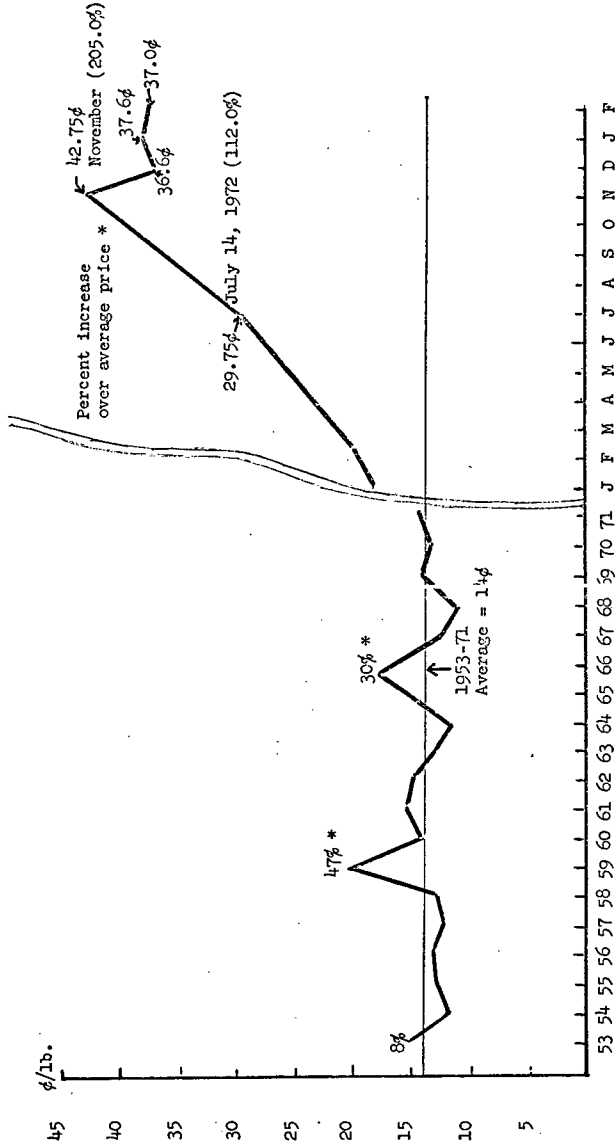
The combined hide exports from the United States and Argentina increased (by 22.4%) to Japan in 1972, and (by 13.0%) to Western Europe, while the exports to Eastern Europe and the Western Hemisphere were down .... -27.7% and -9.9%, respectively.

U. S. AND ARGENTINE CATTLEHIDE EXPORTS (000 HIDES)  
By Major Areas

To	1972 vs 1971						Percent Change 1972/1971		
	1972			1971					
	U.S.	Arg.	Total	U.S.	Arg.	Total	U.S.	Arg.	Total
Western Europe	3,122	712	3,834	2,605	787	3,392	+19.8	- 9.5	+13.0
Eastern Europe	3,543	179	3,722	3,373	1,777	5,150	+ 5.0	- 89.9	-27.7
Japan	7,346	11	7,357	6,010	2	6,012	+22.2	+450.0	+22.4
Western Hemisphere	3,068	412	3,480	3,112	752	3,864	- 1.4	- 45.2	- 9.9
All other	912	30	942	863	45	908	+ 5.7	- 33.3	+ 3.7
Total	17,991	1,344	19,335	15,963	3,363	19,326	+12.7	- 60.0	n/c

Prepared by: AFIA Marketing & Statistical Services Dept.

HISTORY OF CATTLEHIDE PRICES



\* Composite of three common types: Heavy Native Steer, Light Native Steer, and Butt Branded Steer.  
SOURCE: U.S. Dept. of Commerce through July 14, 1972; The Jacobsen Publishing Co., "Hide & Leather Bulletin", Chicago and computations by AFIA.

FACTS & FIGURES  
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SECTION VII  
 RAW MATERIALS

VII-25  
 10/72

WHOLESALE PRICE INDEX OF HIDES AND SKINS - MONTHLY

(1967 = 100)

ALL HIDES AND SKINS										
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Average	92.9	118.0	149.5	100.0	106.1	124.1	104.3	115.1	213.7	
January	80.8	91.8	148.6	116.9	93.7	115.9	109.1	98.9	136.0	274.0
February	78.6	95.8	162.2	114.4	96.2	112.8	107.3	105.3	148.9	
March	80.4	97.8	156.9	105.0	106.4	115.8	105.5	105.5	173.8	
April	93.5	102.2	158.0	93.7	101.5	133.5	113.2	121.1	188.6	
May	91.0	112.4	173.0	92.6	104.2	130.1	108.1	121.4	200.3	
June	95.9	109.4	170.9	101.7	101.0	124.6	99.6	114.0	204.1	
July	98.3	124.6	166.0	99.2	107.7	130.6	96.4	114.0	212.5	
August	101.9	141.6	149.9	92.1	109.1	130.7	98.5	114.6	243.0	
September	101.4	132.6	142.5	98.9	113.2	136.6	99.6	117.7	244.0	
October	101.3	133.3	128.2	92.1	112.1	125.3	103.2	117.2	270.8	
November	96.3	134.3	121.3	96.5	113.6	117.2	109.2	123.1	287.0	
December	95.8	140.4	115.9	96.3	113.4	115.6	101.0	120.6	255.2	

CATTLEHIDES										
Average	84.5	116.8	150.2	100.0	93.4	119.8	106.7	113.0	243.5	
January	71.1	82.0	149.3	120.2	83.0	107.5	107.2	90.0	137.4	296.8
February	66.5	87.3	167.9	115.0	85.7	103.5	111.7	95.5	151.2	
March	69.0	88.2	152.0	109.5	101.2	109.9	112.4	99.8	193.4	
April	90.6	97.0	159.4	99.5	91.8	143.0	120.5	126.8	206.9	
May	77.3	114.1	179.8	101.0	94.1	137.2	111.4	125.0	229.2	
June	81.2	108.0	178.4	104.0	88.4	119.8	104.6	107.2	235.8	
July	89.4	124.8	175.2	100.8	87.2	119.9	98.1	110.4	243.7	
August	97.2	154.2	146.4	86.6	90.1	120.3	105.3	111.3	280.1	
September	94.7	136.8	137.0	99.0	94.9	132.9	101.9	117.7	280.3	
October	98.3	135.5	118.1	86.5	98.3	115.2	105.9	117.2	334.8	
November	91.5	134.3	124.4	91.7	102.2	114.1	107.6	128.2	350.4	
December	87.9	139.2	114.7	86.0	102.7	114.3	93.6	127.0	278.3	

Source: Bureau of Labor Statistics.

FACTS & FIGURES  
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SECTION VII  
RAW MATERIALS

Attachment # 3b  
VII-26  
10/72

WHOLESALE PRICE INDEX OF LEATHERS — MONTHLY  
(1967 = 100)

ALL LEATHERS										
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Average	93.3	98.0	109.8	100.0	102.1	108.7	107.7	112.5	140.3	
January	90.2	94.5	105.7	106.0	98.5	105.9	108.4	108.2	120.0	162.8
February	90.4	93.6	107.0	105.4	98.7	105.6	106.3	108.7	120.6	
March	90.3	95.8	111.8	103.9	100.0	105.5	107.2	108.6	128.4	
April	92.5	93.9	111.0	102.4	101.1	110.9	109.2	111.0	138.1	
May	94.7	94.5	113.4	100.5	102.0	110.3	109.2	113.0	137.8	
June	93.7	97.6	114.8	99.9	102.3	110.2	108.6	114.4	138.1	
July	94.9	96.0	114.2	99.3	103.2	109.9	108.6	114.4	138.1	
August	94.7	102.0	113.2	96.9	103.0	109.7	107.8	114.4	140.6	
September	94.3	100.5	110.4	95.5	103.4	110.3	105.9	113.4	143.5	
October	95.0	101.5	106.5	94.9	104.4	109.1	107.1	113.4	153.3	
November	94.2	102.7	103.4	96.6	103.2	108.4	107.3	113.5	162.6	
December	94.2	103.5	105.3	98.9	105.0	108.5	107.3	117.0	162.2	

CATTLEHIDE LEATHER										
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Average	94.9	99.2	110.4	100.0	100.3	110.4	109.5	109.6	142.9	
January	91.6	95.1	107.1	105.8	97.5	105.2	111.4	106.4	116.5	169.3
February	91.8	93.6	107.7	106.4	96.8	105.2	109.5	107.0	117.2	
March	91.7	96.8	114.3	104.2	98.8	105.2	109.6	106.2	127.7	
April	94.0	94.0	112.6	102.6	99.6	113.3	112.2	109.1	141.8	
May	97.1	94.5	114.8	99.8	100.5	112.2	111.6	111.2	141.1	
June	95.5	99.2	116.5	100.1	100.9	112.1	110.5	110.4	141.1	
July	97.0	96.9	115.7	100.7	100.5	111.4	110.5	110.4	139.8	
August	96.9	105.1	113.8	98.1	99.9	111.1	109.2	110.4	142.1	
September	95.9	102.7	109.7	95.7	100.3	112.7	107.5	110.4	145.3	
October	96.6	103.6	104.5	94.3	101.7	112.8	107.5	110.4	159.3	
November	95.5	104.5	102.5	94.5	101.5	111.8	107.5	110.4	173.5	
December	95.1	104.0	104.8	97.6	104.7	111.1	107.4	113.4	169.3	

Source: Bureau of Labor Statistics.

CATTLEHIDE PRICES -- MONTHLY  
(Cents Per Lb.)

HEAVY NATIVE STEERS										
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Average	10.3	14.1	17.5	11.7	11.0	14.2	12.6	14.3	29.8	
January	8.0	10.2	17.3	13.1	9.2	12.0	12.0	10.2	17.9	34.2
February	7.5	9.9	18.9	12.8	8.9	11.7	12.2	11.5	19.0	32.9
March	8.0	10.3	18.7	12.2	11.3	13.5	12.9	12.2	23.4	
April	10.6	11.3	18.3	11.6	11.3	17.1	13.8	15.4	25.8	
May	9.9	13.4	20.0	12.1	12.2	16.2	13.1	15.6	27.3	
June	10.5	13.6	20.4	12.8	11.2	15.0	13.1	14.6	28.5	
July	11.1	15.9	20.1	12.0	10.5	14.4	12.6	14.4	29.0	
August	11.8	19.3	18.4	11.1	10.8	14.5	13.0	14.5	32.5	
September	11.7	17.3	16.6	11.8	11.6	15.7	12.8	14.9	34.8	
October	11.9	16.5	14.5	10.5	11.8	13.9	12.6	15.0	42.1	
November	11.5	15.6	14.2	10.6	12.1	13.2	12.4	16.5	42.8	
December	11.4	15.7	13.0	10.0	11.7	13.0	10.7	16.6	34.7	

LIGHT NATIVE COWS										
	1964	1965	1966	1967	1968	1969	1970	1971	1972	1973
Average	14.1	16.2	20.8	16.6	15.9	19.0	16.9	17.0	34.6	
January	12.5	14.0	20.6	21.0	15.8	18.2	19.0	16.2	21.3	49.6
February	12.8	14.3	23.2	19.6	16.5	18.4	19.4	16.5	22.5	50.0
March	13.1	14.9	23.8	17.4	17.1	19.4	19.2	17.1	27.5	
April	15.8	15.8	22.4	17.0	16.3	22.9	19.6	18.7	30.4	
May	15.0	16.1	22.8	16.6	15.7	21.6	17.6	17.6	31.1	
June	14.3	15.5	22.8	16.9	14.7	19.3	15.5	16.0	31.7	
July	14.5	16.1	22.2	16.4	14.4	17.1	15.2	15.2	32.8	
August	14.3	18.3	20.5	14.3	14.4	17.4	15.2	15.6	35.2	
September	14.2	16.9	17.9	14.3	15.3	19.0	14.9	16.6	38.4	
October	14.4	16.9	16.7	14.6	15.9	18.3	15.1	17.1	46.8	
November	13.8	17.3	17.4	15.3	16.8	18.0	15.8	18.5	49.2	
December	14.2	18.6	12.5	15.8	17.6	18.6	16.3	19.3	48.1	

Source: Jacobsen Publishing Co. "Hide and Leather Bulletin"

## Attachment 4

DISTRIBUTION OF U. S. HIDES-EXPORT AND DOMESTIC(Number of Hides in Millions)

	EXPORT OF U.S. HIDES		U.S. HIDES AVAILABLE TO DOMESTIC MARKET		TOTAL U.S. PRODUCTION No. of Hides,
	No. of Hides	% of Production	No. of Hides	% of Production	
1964	11.5	34.6	21.7	65.4	33.2
1965	13.3	38.3	21.4	61.7	34.7
1966	14.2	40.2	21.1	59.8	35.3
1967	11.9	33.2	23.9	66.8	35.8
1968	12.9	35.0	24.0	65.0	36.9
1969	14.8	39.9	22.3	60.1	37.1
1970	15.2	41.2	21.7	58.8	36.9
1971	16.0	42.6	21.6	57.4	37.6
1972	18.0	47.6	19.8	52.4	37.8*

Source: U.S. Department of Commerce

\* Estimated



## Attachment 5

POTENTIAL IMPACT OF HIDE PRICE  
INCREASES ON DOMESTIC FALL 1972 SHOE PRICES  
IF HIDE PRICES STAY AT MARCH 1972 LEVELS

	Dollar Increase For A Typical Pair Of:		
	<u>Children's Shoes</u>	<u>Women's Boots</u>	<u>Men's Shoes</u>
HIDE COST INCREASE			
September 1971 to March 1972	.58	1.71	.79
TYPICAL TANNER'S MARGIN	+ .11	+ .34	+ .16
Potential Tanner's Price Increase Based on Hide Cost Increase	.69	2.05	.95
TYPICAL SHOE MANUFACTURER'S MARGIN	+ .12	+ .36	+ .17
Potential Shoe Manufacturer's Price Increase Based on Hide Cost Increase	.81	2.41	1.12
TYPICAL WHOLESALE AND RETAIL MARK-UP	+ .81	+2.41	+1.12
Potential Retail Shoe Price Increase Based on Hide Cost Increase	1.62	4.82	2.24
TYPICAL RETAIL PRICE BEFORE INCREASE	11.95	26.95	17.95

Source: U.S. Department of Commerce

## Attachment 6

ESTIMATED NET TRADE DEFICIT ON ACCOUNT OF IMPORTS OF NONRUBBER FOOTWEAR  
AND OTHER SPECIAL TYPES OF FOOTWEAR INCLUDING RUBBER CANVAS

(Value in millions) (CIF Value estimated at 1.10 of f.o.b. Value)

Year	1	2	3	4	5	6
		Est. CIF Value Of Imports Of Nonrubber Footwear	\$ Value Of Exports Of Nonrubber Footwear	Estimated Trade Deficit On Nonrubber Footwear	Estimated Trade Deficit On Special Kinds of Footwear Incl. Rubber Canvas	Est. Total Trade Deficit (4) + (5)
1960		\$ 58.6	\$ 9.4	\$ 49.2	\$ 98.7	\$ 147.9
1961		65.7	9.0	56.7	72.2	128.9
1962		94.6	8.7	85.9	52.3	138.2
1963		98.5	8.6	89.9	43.3	133.2
1964		114.0	8.5	105.5	43.0	148.5
1965		130.3	7.8	122.5	52.3	174.8
1966		168.9	8.9	160.0	42.7	202.7
1967		239.4	8.2	231.2	51.4	282.6
1968		361.1	8.1	353.0	64.8	417.8
1969		472.5	8.2	464.3	65.5	529.8
1970		604.1	8.6	595.5	84.7	680.2
1971		727.9	8.4	719.4	104.8	824.2
1972		902.0	9.6	892.4	105.2	997.6

## TRADE DEFICIT PERCENT CHANGE

Category	1972/1960	1972/1967
Nonrubber	+1,713.8	+276.8
Other	+ 6.6	+104.7
TOTAL	+ 574.5	+253.0

Source: Department of Commerce and AFIA

## Attachment 7

NONRUBBER FOOTWEAR PRODUCTION & IMPORTS  
(1960 - 1972)  
(Millions of Pairs)

<u>Year</u>	<u>Domestic Production</u>	<u>Imports</u>	<u>Total U.S. Supply</u>	<u>Domestic Production as % of U.S. Supply</u>	<u>Imports as % of U.S. Supply</u>
1960	600.0	26.6	626.6	95.8%	4.2%
1961	592.9	36.7	629.6	94.2%	5.8%
1962	633.2	63.0	696.2	91.0%	9.0%
1963	604.3	62.8	667.1	90.6%	9.4%
1964	612.8	75.4	688.2	89.0%	11.0%
1965	626.2	87.6	713.8	87.7%	12.3%
1966	641.7	96.1	737.8	87.0%	13.0%
1967	600.0	129.1	729.1	82.3%	17.7%
1968	642.4	175.4	817.8	78.6%	21.4%
1969	577.0	195.5	772.5	74.7%	25.3%
1970	562.3	235.6*	797.9	70.4%	29.5%
1971	535.8	260.2*	796.0	67.2%	32.7%
1972	527.2	286.7*	813.9	63.5%	35.2%

\* Does not include "Footwear n.e.s. upper 90% rubber/plastic"

Source: U. S. Department of Commerce

## Attachment 8

PLANT CLOSINGS & PLANT OPENINGS  
1960 - 1972

Year	Plant Closings	Plant Openings	Net	Estimated Number Of Establishments
1960	39	48	+ 9	N/A
1961	36	46	+10	N/A
1962	52	35	-17	N/A
1963	51	42	- 9	1,193*
1964	40	32	- 8	N/A
1965	24	24	0	N/A
1966	27	35	- 8	N/A
1967	43	27	-16	1,083*
1968	23	13	-10	1,067
1969	72	20	-52	1,057
1970	86	31	-55	1,005
1971	51	24	-27	950
1972	66	29	-37	923
1973 (January 1)				886

\* Census Figures

Source: AFIA for plant closings and plant openings  
U.S. Department of Commerce - Census for benchmarks  
on number of establishments

## Attachment 9

## TOTAL EMPLOYMENT IN ALL MANUFACTURING AND NONRUBBER FOOTWEAR

Year	U. S. Total (000)		12 Major Nonrubber Footwear Mfg. States	
	Manufacturing	Nonrubber Footwear	Manufacturing	Nonrubber Footwear
1960	16,796	242.6	8,760.7	230.8
1961	16,326	239.6	8,445.3	227.2
1962	16,853	240.6	8,634.4	227.2
1963	16,995	231.6	8,620.4	218.4
1964	17,274	230.5	8,724.7	216.3
1965	18,062	234.5	9,083.3	219.6
1966	19,214	241.5	9,561.6	223.6
1967	19,447	230.6	9,580.0	212.6
1968	19,781	233.4	9,368.2	213.5
1969	20,167	227.3	9,729.2	200.8
1970	19,369	219.1	9,349.2	187.7
1971	18,529	206.1	8,978.0	164.2
1972	18,934	201.6		
		PERCENTAGE CHANGE		
1964/60	+ 2.8	- 5.0	- 0.4	- 6.3
1968/64	+14.5	+ 1.2	+ 7.4	- 1.3
1971/68	- 6.0	-11.7	- 4.2	-23.1
1971/60	+10.7	-15.1	+ 2.5	-28.9
1972/60	+12.7	-16.9		

Source: U.S. Department of Labor, Bureau of Labor Statistics

## Attachment 10

JOBS LOST & LOST JOB OPPORTUNITIES  
IN NONRUBBER FOOTWEAR INDUSTRY  
(1960 - 1972)

Year	Number of Jobs Lost	Number of Lost Job Opportunities (Production Jobs)	Total Lost Job Opportunities (Incl. non Production Jobs)
1960		8,867	10,282
1961	- 3,000	12,233	14,186
1962	+ 1,000	21,000	24,353
1963	- 9,000	20,933	24,275
1964	- 1,500	25,133	29,146
1965	+ 4,000	29,200	33,862
1966	+ 7,000	32,033	37,147
1967	-10,900	43,033	49,903
1968	+ 2,800	58,467	67,801
1969	- 6,100	65,167	75,570
1970	- 8,200	78,567	91,109
1971	-13,000	86,733	100,580
1972	<u>- 4,500</u>	95,567	110,269
TOTAL	-41,000		

Note: Job opportunities represent number of jobs that would have been available if there would not have been any import during the year, based on output of 3,000 shoes per year per worker, the approximate average for 1969-71.

Source: U.S. Department of Labor  
Bureau of Labor Statistics

Mr. ASHLEY. Thank you, Mr. Olson, for a very comprehensive and excellent statement.

Our next witness is Mr. Herbert Miller.

You have a prepared statement. You may proceed, sir.

**STATEMENT OF HERBERT MILLER, SECRETARY, TANNERS'  
COUNCIL OF AMERICA**

Mr. MILLER. Mr. Chairman and members of the committee, I am Herbert Miller, secretary of the Tanners' Council of America.

The statement we present is submitted to you by the Tanners' Council of America, the national trade association of the leather industries of the United States. We believe that the facts we offer are a shocking and dramatic illustration of the critical situation flowing from the unrestricted export of essential raw material.

On behalf of the tanners of this country and all the manufacturing industries based on U.S. production of leather, we call the committee's attention to the extraordinary and dangerous consequences of our country's adverse foreign trade position in the hide, shoe, and leather products areas. The implications of this deficit position go far beyond the injury and loss suffered by our industries. They directly involve the national interest.

May I ask you to look at the charts appended to the statement which I have submitted to your secretary.

Those charts tell a story which makes rhetoric and long-winded argument totally irrelevant. Last year, 1972, the United States permitted 18 million hides to be exported. For years we have warned that the hides we export come back to us as manufactured goods at a fantastic price multiple and as a tremendous trade deficit. In 1972 that multiple cost the United States more than \$1 billion of trade red ink.

The clear and demonstrable fact is that in 1972 we paid other countries more than \$1 billion net, one-sixth of our total deficit on foreign trade account, for the privilege of taking our raw material and shipping manufactured goods back to us, finished products such as shoes and baseball gloves. The trend so emphatically disclosed by the charts before you completely confirms the warnings and the forebodings we have submitted to the Government in the past. It is no consolation to be right when that jeopardizes the viability of manufacturing industry and of manufacturing employment in the United States.

We believe that the facts of our industry product area signal the greatest economic danger before the United States. That danger, Mr. Chairman, can be put succinctly: Is our country going to become the supplier of raw material to such developed nations as Japan, Taiwan, South Korea, Italy, Spain, Argentina, Brazil, Greece, and so on? Are we now accepting the economic role of a colonial dependency with the economic price which that forebodes?

The question I ask is not preposterous. In 1972 the dollar discrepancy between the hides we exported and the shoes or other leather products which came back to us was more than \$1 billion. No one can doubt that the sum attributable to our product area has therefore played a considerable part in the weakness of the dollar and all the associated problems of such great concern in recent weeks.

I have noted the dollar cost of the trade imbalance which we have tolerated as a nation. Unfortunately the red ink on our foreign trade account is only the tip of the iceberg. How do we measure the cost of closed plants, of unemployment, of mounting relief rolls, of the loss in dignity and pride in living standards when opportunity in labor intensive industry shrinks? I am certain that other witnesses have testified and will testify to the terrible sociological cost of erosion in our manufacturing base.

Of course you cannot regard the data for 1972 without inquiring into the underlying causes. I would like to describe several of those to you.

In my opinion the first and most fundamental cause is our failure as a nation to recognize that in the modern world foreign trade has become an instrument of national economic policy. That, unfortunately, is true almost everywhere else except in the United States. Consider, if you please, the roster of countries where foreign trade policy is guided not by abstract principles of equity and reciprocity but by the hard and practical considerations of national need for employment, for the maintenance of the labor intensive manufacturing industries which are the base of modern economies. I do not have to point out that in the Communist or Socialist economies the premise I have stated is obvious and taken for granted. But, it is also operating doctrine in scores of other countries.

Let me give you just one example, an injustice from which our industry has suffered for at least 20 years. To this day Japan does not permit the import of cattle-hide leather from the United States. Last year Japan bought 7,400,000 cattlehides—and those are raw—in the United States and Japan felt free to ship back to us, without let or hindrance, shoes, baseball gloves, or other leather products. Japan's hide buying in our country was responsible for scarcity, and for tremendous price increase in shoes. We state publicly and plainly that U.S. tanners can produce leather better and cheaper than Japan but we are denied even the token possibility of access to the Japanese market. Why? Because Japan is a controlled economy and believes it can flout the principle of trade reciprocity to which our foreign trade policy has been pinned.

Some 25 years ago the Japanese rejoinder to our protests was the plaintive cry of dollar shortage. I need not remind the committee of the incredible dollar trade surplus which Japan now enjoys but still refuses to let down the barrier against U.S. leather.

A second vital reason for the overwhelming imbalance in our trade to which we call attention is the raw material control maintained by every other important producer of hides and skins. Early in 1971, cattle slaughter in Argentina, the second largest supplier of hides to the world market, began to decline sharply. Within weeks the Argentine Government imposed an embargo on the export of hides. Since May 1971, Argentina has restricted and then forbidden the export of raw cattle hides. In 1970, Argentina shipped 7,506,000 hides to the world market. In 1971, Argentina permitted only 3,360,000 hides to be exported. In 1972, Argentine shipments were cut to 1,900,000, and today they are practically zero.

Where did importing countries turn when they were denied access to Argentine hides? Where but to the United States and that is the



primary reason for the price explosion of 300 to 400 percent seen in our markets in 1971 and 1972.

I believe that the reasons for the Argentine export ban must be noted and stressed because they are the same reasons which have induced almost every other hide and skin producing country in the world, except the United States, to impose a clamp on exports. Argentina has stated its reasons explicitly: to encourage the growth of domestic tanning and manufacturing industries. To that end, tax devices and subsidy schemes supplement the export ban on raw material. Argentina wants to build and expand labor intensive manufacturing industry and the retention of raw material is vital for that purpose.

In one form or another the same purposes and the same means are used by every other country producing significant quantities of hides and skins. The important countries in that roster include India, Brazil, Pakistan, Uruguay, South Africa, Colombia, Australia. All these countries recognize that their national interests require them to retain sufficient raw material to sustain and encourage domestic manufacturing.

The United States allowed 50 percent of its cattle hide supply to be bought by other countries last year. I am sure it is obvious to the committee that the advantage held by other countries in low labor costs was seriously aggravated last year as a result of dollar devaluation. The Japanese owners of yen could afford to pay more for hides than U.S. tanners and manufacturers.

In the context of the facts disclosed by the 1972 trade figures, and continuation of that same trend so far this year, we believe legislative action is essential to permit or require equitable limits upon hide exports. Moreover, in the context of the deliberate policy followed by all other countries producing hides and skins it is inadmissible that the United States remain alone by ignoring its national requirements. Our failure to give heed to domestic necessity exposes the United States to the unpredictable plans and policies of areas such as Eastern Europe or of countries such as Japan. We can no longer afford to allow such countries to raid our raw material supply, for the benefit of their economies and with total disregard for our national needs.

We believe that equitable restraint of cattle hide exports cannot possibly hurt the interests of any economic group within our country. On

the contrary, it is our conviction, and the proof is demonstrable, that hide export control would aid every economic grouping within the United States. The livestock industry, for example, would not suffer; it would gain. Price is not the issue because the price of cattle hides is always determined by world supply and demand in a world market. But, livestock producers would be far better off by the existence of domestic tanning and shoe industries because employment in those industries supports consumption of meat. Without jobs there are no consumers. Furthermore, livestock producers suffer with all of us from the foreign trade deficit and the dollar weakness in which cattle hide exports have played a key role. Here is a case where agriculture, industry, and labor can and should join for their common good and to the benefit of the entire country.

Our industry has never suggested that the United States should completely ban the export of cattle hides. We have only urged that reasonable steps be taken in our national interest, that the export of hides be held within limits consistent with the primary requirements of our industry and our consumers. We believe that unless such position is adopted by the United States the trend demonstrated by the facts we submit will doom U.S. tanning and shoe manufacturing. Those industries are essential as payroll producers in hundreds of communities throughout the country. They are essential to the economic integration of minority groups, to the existence of jobs as a way of life instead of relief.

It is still not too late to act now for the sake of our future and I mean the economic future of the United States. In the light of the facts which have become so clear and evident, Congress must undo the damage done by precipitate action taken last year when amendments to the Export Control Act made it impossible or difficult to give even the slightest priority to U.S. economic necessity. The United States cannot leave itself defenseless against foreign raiding and capture of a critical raw material supply, a national resource vital to the well-being of consumers, the maintenance of industry and of employment, and even to national security.

Thank you.

[The following statement was submitted for the record by Mr. Miller on behalf of the Tanners' Council of America:]

# Tanners' Council of America, Inc.

JEROME WEINSTEIN  
CHAIRMAN OF THE BOARD  
ROBERT G. AMYOUNY  
TREASURER

IRVING R. GLASS  
PRESIDENT  
HERBERT F. MILLER  
SECRETARY

411 FIFTH AVENUE • NEW YORK, N. Y. 10018

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CABLES: TANNERCIL, NEWYORK

Statement of  
TANNERS' COUNCIL OF AMERICA, INC.  
Before the  
HOUSE BANKING AND CURRENCY COMMITTEE  
INTERNATIONAL TRADE SUB-COMMITTEE  
Thursday, March 22, 1973

Mr. Chairman and Members of the Committee:

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- Appendix I      Charts comparing U. S. cattlehide exports, shoe imports, and annual deficit in hide and leather products area.
- Appendix II     Charts comparing dollar value of hide exports, dollar value of shoe and leather goods imports, and net dollar deficit in this product area.
- Appendix III    Annual figures from Department of Commerce foreign trade compilations shown graphically in Appendixes I and II.

THE LEATHER AND SHOE CASE HISTORYU. S. DEPT. OF COMMERCE DATA

	<u>U. S. Hide Exports</u> <u>(million hides)</u>	<u>U. S. Shoe Imports</u> <u>(million pairs)</u>	<u>% Shoe Imports</u> <u>of U. S.</u> <u>Production</u>	<u>Net Deficit -</u> <u>Foreign Trade</u> <u>Hides, Leather</u> <u>&amp; Shoes</u> <u>(\$ Million)</u>
1962	7.1	55.1	8.7	134.1
1963	8.0	62.8	10.4	121.7
1964	11.5	75.4	12.3	141.0
1965	13.3	87.6	14.0	198.4
1966	14.2	96.1	15.0	211.2
1967	11.9	129.1	21.5	288.1
1968	12.8	175.3	27.3	465.5
1969	14.8	202.0	35.0	559.4
1970	15.2	241.5	42.9	718.7
1971	16.0	268.6	50.1	839.2
1972	18.0	286.5	54.3	1,007.1

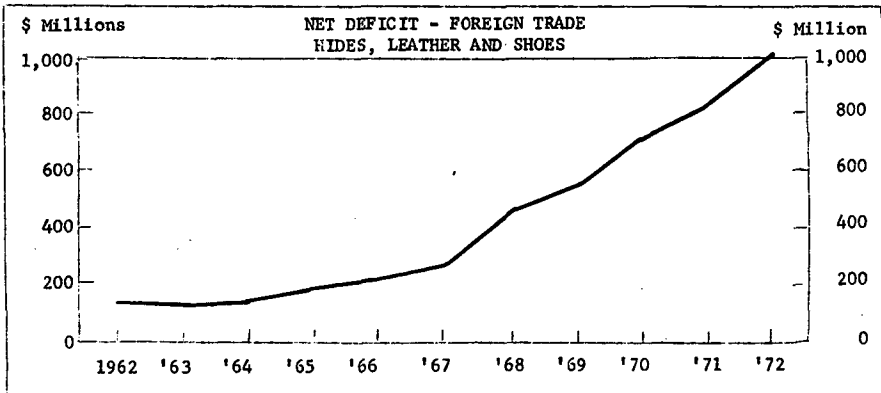
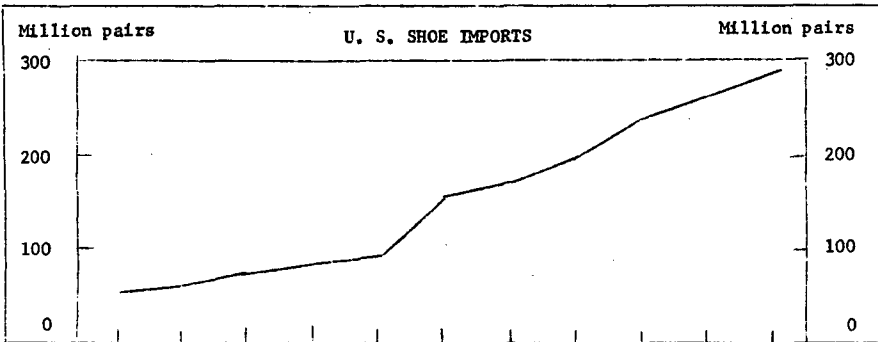
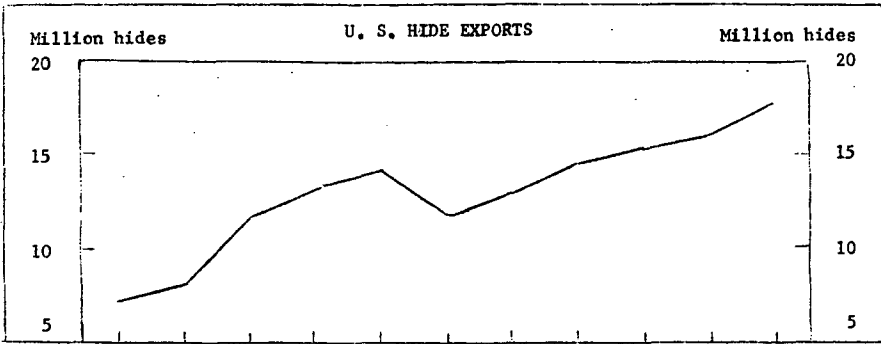
THE HIDE, LEATHER AND SHOE CASE HISTORYU. S. DEPARTMENT OF COMMERCE DATA

(Million Dollars)

<u>Year</u>	<u>U. S. Hide and Skin Exports</u>	<u>U. S. Imports of Shoes, Leather &amp; Leather Products</u>	<u>Net Deficit - Foreign Trade in Hides, Leather, Shoes &amp; Leather Products</u>
1962	82.9	203.4	134.1
1963	74.6	191.1	131.7
1964	92.6	220.8	141.0
1965	109.4	289.1	198.4
1966	155.3	343.7	211.2
1967	127.9	418.4	288.1
1968	122.7	580.4	465.5
1969	152.4	716.8	559.4
1970	145.2	876.4	718.7
1971	155.8	1,012.4	839.2
1972	265.0	1,257.7	1,007.1

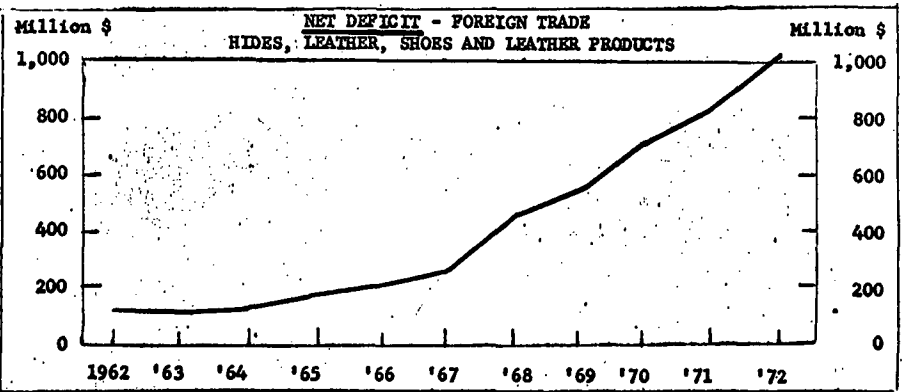
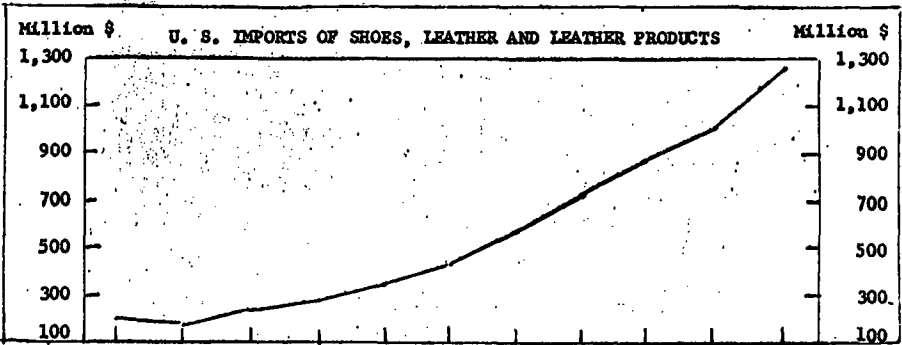
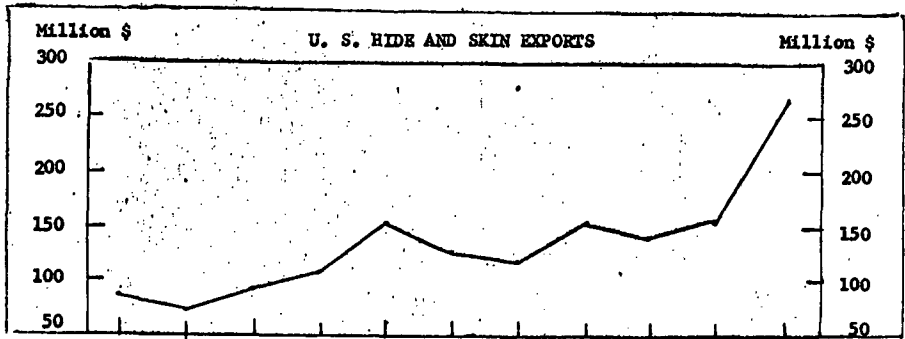
WHY IS YOUR DOLLAR WEAK?  
THE LEATHER AND SHOE CASE HISTORY

HIDE EXPORTS, SHOE IMPORTS, YOUR DOLLAR



## WHY IS YOUR DOLLAR WEAK?

## THE LEATHER CASE HISTORY



Mr. ASHLEY. Thank you, Mr. Miller.

You of course commented in some detail on the application of the Gonzalez amendment which was adopted last year, which stipulates that as a present condition for imposing any kind of export control on hides, for example, there must be a finding by the Secretary of Agriculture that domestic supply exceeds domestic demand. Isn't that essentially what it does, in order for there to be access to export controls?

Mr. MILLER. In order for there to be export controls imposed, domestic supply may not exceed domestic demand. In other words, under the Curtis-Gonzalez amendment there had to be a shortage in the finding of the Secretary of Agriculture to permit him to approve—

Mr. ASHLEY. We do not have that situation?

Mr. MILLER. No, sir. We are an exporter of cattle hides.

Mr. ASHLEY. What I am saying is, we are not even close to that kind of a situation.

Mr. MILLER. Correct.

Mr. ASHLEY. So it was an ingenious amendment if you really want to prohibit—in effect it simply represents a ban on any kind of export control of this product.

Mr. MILLER. That is true.

May I comment?

Mr. ASHLEY. Yes, by all means.

Mr. MILLER. In line with this testimony I have already given, I call your attention to the charts showing shoe imports. I am sure that every Member of Congress has been sufficiently bombarded over the past 2 to 3 years with data on levels of shoe imports, during the consideration of the Mills bill on exports 2 years ago, and even much more recently, and the charts attached to this statement, which were mailed to every Member of Congress about 2 weeks ago. The U.S. industries, tanning and shoe manufacturing—and this does affect the U.S. consumption of its cattle hide supply—are suffering from the effects of drastic import competition from the low-wage countries. In 1972, we imported 286 million pairs of footwear from all of these countries. Were it not for the ingenious nature of the Curtis-Gonzalez amendment, as you point out, and had the administration seen fit to maintain a reasonable level of export control on cattle hides, thereby enforcing the participation of agriculture, industry, and labor that I referred to in my testimony, the foreign countries would not have had sufficient raw material to make 286 million pairs to ship to this country. It would have controlled the level of imports of footwear as well, since the hide markets is a world market, and the material floats from country to country. It would have effectively controlled this, and thereby reduced, to some degree I am unable to predict, this deficit on foreign trade of \$1 billion in this product area.

Mr. ASHLEY. What we are saying, of course, is that we apply a very different standard in measuring short supply than we do other commodities.

Mr. MILLER. Correct.

Mr. ASHLEY. Without any real justification or backup—at least I have never seen any—to support this special treatment, this special definition of short supply for hides, before there can be any application of the Export Administration Act control mechanism. Have you ever seen that?

Mr. MILLER. No, sir.

Mr. ASHLEY. Have you, sir?

Mr. OLSON. No, sir.

Mr. ASHLEY. All I can say is that in the light of the letter that Congressman Harrington received this morning from the White House it would appear that there is no apparent readiness to try to reestablish an equitable framework such as existed earlier last year. That being the case, and faced with the realities of the situation, I wonder how much comfort we can take from the policy which seeks to increase our supply of agricultural products and livestock by virtue of exempting these from the application of phases 1, 2, and 3? I would suppose that there has been some success in encouraging livestock producers to increase their stock.

Mr. OLSON. Yes.

Mr. ASHLEY. To what extent is this going to bring a measure of relief, if this is the only avenue of encouragement for which we have to look?

Mr. MILLER. We estimate that cattle slaughter in 1973 will increase in the area of 5 to 7 percent over 1972. So far this year that estimate has been borne out. Of course, the year is very young yet.

Mr. ASHLEY. Does this mean that there will be a measurable increase in the availability of hides, or does it mean that there simply will be more for export?

Mr. OLSON. I would like to comment on that.

I think that we are facing, not only in the short run, but in the long run particularly, a severe shortage of hides in this world. Why? Because hides are a joint supply item. The supply of hide is a function of the demand for meat. Your herds are not increased because of the increase in demand for hides. The increase is because of the demand for meat. We are one of the few beef eating nations of this world. Two-thirds of this world, the populations of two-thirds of this world, eat rice. These people cannot, according to the Dupont venture analysis study, be expected to convert their rice and grains into beef in the foreseeable future 100 years. However, in this other two-thirds of the world, and in developing nations in the Far East and in Africa, as these countries emerge and per capita income increases, the demand for leather footwear is a function of this growth, even though it be small, in those personal incomes. It is a status symbol, much as automobiles have been in the earlier history of this country, much as during the poor times in this country back at the turn of the 18th century having a pair of leather boots was also pretty much a status symbol. So you are going to have a soaring demand for leather footwear and leather goods in this world, but are only going to have a small increase in the cattle population.

Is that a long-winded answer to your question?

Mr. ASHLEY. No; I think it is very succinct, and I think, from all I can gather, it is an accurate projection of what the future holds in store.

Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

I appreciate your comments very much, Mr. Olson.

As I interpret it, a fellow with a little extra money in his pocket would rather go buy a pair of shoes than steak.

Mr. OLSON. Right.



Mr. BLACKBURN. But if you don't produce the steak you aren't going to have the leather for the shoes.

Mr. OLSON. That is right.

Mr. BLACKBURN. Maybe we ought to insist that all our businessmen travel barefoot around the world and take away some of that status that goes with leather shoes.

Mr. OLSON. That would be one solution.

Mr. BLACKBURN. On page 4, Mr. Miller, of your statement, the second sentence of the first complete paragraph, you say: "To this date Japan does not permit the import of cattle hide leather from the United States." Does that mean that they permit cattle hide leather goods?

Mr. MILLER. No, sir.

Mr. BLACKBURN. Yet you say they bought 7,400,000 cattle hides.

Mr. MILLER. Raw hide.

Mr. BLACKBURN. You mean hide as opposed to processed leather?

Mr. MILLER. Correct.

Mr. BLACKBURN. What about finished leather goods?

Mr. MILLER. No, sir. They ship finished leather goods here. The Japanese take the American raw cattle hides, tan them, make footwear, garments, camera cases, radio cases, binocular cases, small leather goods, purses, wallets, all types of leather products, and ship them to the United States.

Mr. BLACKBURN. When you say that they do not permit it, is this a matter of regulation, or is it a law, or is it just one of those invisible barriers that somehow we can't get around?

Mr. MILLER. It is one of those invisible barriers. The Japanese do not embargo leather as such. However, in order to successfully complete any such import transaction, a Japanese importer must buy the currency exchange. That is tightly controlled, and he cannot buy currency exchange for the purpose of bringing in leather. Yet leather is not embargoed. It is our understanding, yet documented, that recently the Japanese have agreed to the purchase of \$1 million worth of American leather, leather that, as I said, we can make better and cheaper. Yet the 7,400,000 cattle hides that they imported last year would account for about \$300 million worth of finished leather. So \$1 million worth they are permitting in. Three hundred million dollars worth, or somewhere in that area, they insist on the taking of our raw material, converting it completely in their own labor intensive factories. Yes, their economic status is rising. But still we can demonstrate that worldwide the equivalent of the hides that we export comes back to us. They may not be the same identical hides, but the equivalent comes back to us. As the export of hides rises, the import of leather, which we are quite capable of making here, and finished products, which our industries are quite capable of producing here, rises in proportion to the export of the raw hides.

Mr. BLACKBURN. The thing that I am going to remember best of all is that the Japanese do not specifically prohibit the import of leather.

Mr. MILLER. Correct.

Mr. BLACKBURN. They just tell the man who wants to import it that he has got to buy his currency to pay for that leather in the Japanese market, but there is no currency available for that purpose.

Mr. MILLER. He must buy it through official channels.

Mr. BLACKBURN. That may explain why the agreement relative to the purchase of lumber was fixed in currency rather than in board feet, because they can control the amount of currency that is going to be sold for those purposes—clever Japanese.

Mr. OLSON, on page 5 you comment that there has been some price decrease in recent months. To what would you attribute that?

Mr. OLSON. Well, the fact is that there has been a drop in production. As a matter of fact, there is another little problem in the picture, there has been a dropoff in consumer demand of footwear since 1968—combined domestic shoe production and imports. A larger population in this country is buying fewer shoes.

You might want to raise the question, why are they buying fewer shoes. Well, I think we all suspect that price has something to do with it. At some point there is a price elasticity of demand, even though many economists have said in the past that is not so.

Mr. BLACKBURN. What is the percentage of our shoes that are made of plastics as opposed to leather?

Mr. OLSON. 31.8 percent in 1972.

Mr. BLACKBURN. Is that percentage increasing or going down; that is, the percentage of nonleather?

Mr. OLSON. Over the years it represents a decrease, a slight decrease. There is a tenacity on the part of the American consumer to want leather shoes. We are mighty surprised that it didn't nosedive further in 1972; that is, the proportion that was leather. Now, we think in the immediate future, however, as evidenced in the last shoe show in Chicago last week, and in view of what I saw in Atlantic City in October at our machinery and components exhibit, that you are going to see a tremendous dropoff in 1973. By 1975 there will be a 20-percent diminution in share of market enjoyed by leather, because the leather will just not be there.

Mr. BLACKBURN. I think the significant thing is that it is a worldwide problem.

Mr. OLSON. Yes.

Mr. BLACKBURN. It is going to become a worse problem as time goes on rather than less of a problem, as the demand for the byproduct of meat increases; but production and consumption of meat is not going to increase at the same rate as the demand for the byproduct.

Mr. OLSON. Yes, sir.

Mr. BLACKBURN. If I recall, the Argentine cattle industry has suffered a considerable setback in recent years because the government has been taxing the herds greatly in order to put emphasis on the manufacturing industries and things of this sort. Now, I find myself in a real conflict of interest. I certainly want to protect our domestic shoe manufacturing facilities, including leather tanneries, because I don't want to wake up some day and find out that we can't make our own shoes, or we cannot make most of them that we need. At the same time, when we look at the example of Argentina and see the result of tinkering with the national market forces, and the disaster it led to in Argentina, I wonder, to what extent we should be tinkering with national market forces here to promote what we consider to be our national interest? I really don't know. You do not suggest a total export ban, but you suggest a restriction on exports. How would you limit that, by some per-

centage, or would you impose a tax on exports as they go above a certain percentage of the total exports available? How would you impose a limitation?

Mr. OLSON. I would suggest the avenue taken by the Secretary of Commerce last year, which was to set up a base period. I don't recall off-hand whether it was 1971 or 1970 or both years' average. In other words, he looked back at a former period and said, well, prices were right, and they were not inflationary at that point. I think the question you raise, sir, is a rather interesting philosophical, or shall we say a political economic, question that you are raising. We are about the only Nation that I know of in this world today that thinks in terms of that beautiful doctrine of comparative advantage. One economist who won a Nobel prize said, if there were a beauty contest for doctrines, the doctrine of comparative advantage would win hands down. That was Mr. Samuelson.

Now, we are the only Nation that I know of that pursues that doctrine of "first best." I am talking now in terms of industries. But all other nations on the face of this Earth pursue the philosophy of "second best." In order to do what? To make sure that employment in their countries runs somewhere less than one-half of 1 percent. Look at them: Sweden, Germany, France, England, just name them. Run right down the list. Do you think that is due to British efficiency, or the efficiency of these nations over and above us? No; we are a more productive Nation in terms of value of product added, even though they are not in number of units created per man-hour. What other nation besides us only pays attention, makes a nose count, of the number of people that are employed in this country due to exports, and not employment loss due to imports? None that I know. They all keep a very close tab on employment loss due to imports and employment gain due to imports and employment gain due to exports, and their economic policy, international economic policy is governed accordingly.

I am coming a long way around to try to answer your question about your conflict. You say, yes, but I have been indoctrinated all my life to believe in free flow of goods and prices. Then you have to ask yourself, does this thing really exist? It came in the mercantilistic period in England when it was expanding exports all over the world. But when the thirties came, that philosophy of Cambridge and Oxford was no longer in existence. They dropped it, and you got the notion of controls coming in at that time, higher tariffs to protect the British home industry, when she had to start thinking in terms of her market. This is an expediency philosophy, in my view. In the long run we do want to operate under the comparative advantage doctrine. But as Keynes said, in the long run, we are dead. We have been striving in our industry for a concept, which I must confess that I gave birth to in around 1959 or 1960, when we set the "orderly marketing" bill for Senator Muskie, or helped him with it.

I just stole that concept from the Grange around 1887, the farmer Grange in America. It was the problem of keeping an orderly flow of commodities to market. You remember what used to happen to farmers when stuff was shot willy-nilly under free market forces into the markets, and they had to sell at spot prices? The poor farmers starved. Now, why doesn't the American farmer want the producers of finished products in this country to have the same break that they have been

pursuing all their lives? They have prices supports under. But we don't. We too are subject to forces of nature, not sunspots and rabbit pelts or anything like that, the vagaries of nature. But we are subject to the vagaries of economic nature, and the whims of men throughout this world who operate by discretion and self-interest.

Mr. BLACKBURN. What you are saying is, as I interpret it, is that we really have never had a free flow of goods and services among nations, even though they may talk about the long-term desirable benefits if we did have it.

Mr. OLSON. True. We endorse it.

Mr. BLACKBURN. You still haven't answered my question, though, about how you could establish these limitations on exports, because, as you have pointed out, we are not going back to a "normal" demand situation again. The demand is going to continue to rise faster than the supply, and faster than the supply will be increased. So I still have the question in my mind.

Mr. OLSON. Yes, I think you have to ask yourself this question in order to answer that one: Do you want some 868 manufacturing plants in this country to close down in the next 10 to 20 years? Do you want to put 200,000 people out of work? Do you want to remove from the rural areas of our country lots of these plants that are now sopping up a lot of that labor?

You know the President's report on rural development, April 1970, had this to say, that 70 million people still remain in rural areas, and agriculture is only sopping up 4 to 5 million of those workers. So where do these unemployed go? They go to the cities, compounding the urban problem. That is why you are having the exodus from the rural areas to the city, according to that report. Thus it is very important to balance all these things.

Do you want to be wearing synthetic footwear in the future? Now, some of it is darned good, let me say that. But this is a personal thing from your standpoint. What kind of footwear do you want to wear, and your peers, and so forth? I think you have to balance these things out.

Mr. BLACKBURN. I think you are just saying that there are other considerations than poor economics involved in our policy decisions, and there are sociological considerations, and there are strategic military considerations that enter into our decision. We can't consider one thing to the exclusion of the other. That is what Congress is all about.

Thank you for your testimony.

Mr. OLSON. Thank you.

Mr. ASHLEY. Mr. Mitchell.

Mr. MITCHELL. Thank you very much.

A request first. I would like to get a listing of all of the members of your organization which are located in my State of Maryland, that is the first thing I would like.

Mr. OLSON. I would be delighted to send them to you, Mr. Mitchell.

Mr. MITCHELL. Thank you.

Mr. Miller, on page 3 of your testimony you referred to the mounting relief rolls. You say:

I have noted the dollar cost of the trade imbalance which we have tolerated as a nation. How do you measure the cost of closed plants, of unemployment, of mounting relief rolls?

Did you have any hard data to show that those who have been laid off because of these developments did go on relief?

Mr. MILLER. I do not have any data from the last 3 to 6 months. I have had studies during the past 2 years, primarily in New England, in Missouri, Tennessee, Arkansas, Mississippi. These are major footwear producing areas. They also happen to be substantial tanning areas. The tanning industry has not been as hard impacted from the standpoint of closing of companies as the footwear industry, until very recently. The closing of tanneries is now beginning to mount.

Mr. MITCHELL. Mr. Olson, do you have any hard data on the number of persons laid off in the shoe industry because of these developments who have been going on relief rolls?

Mr. OLSON. We have the number that have become unemployed. We can get it by going to the local social security offices and to one division in the Bureau of Labor Statistics, the data on how many have gone on relief.

Mr. MITCHELL. I would like to have an opportunity to look at it, if it is not too difficult for you.

Now, certainly I am sympathetic with your plight. But I have to confess that I am concerned Mr. Miller, when you say on page 3 of your testimony: "Consider if you please, the roster of countries where foreign trade policy is guided not by abstract principles of equity and reciprocity but by the hard and practical considerations"—so forth and so on.

Mr. Olson, you voiced criticisms of the doctrine of comparative advantage. I think we get into a dangerous kind of thicket here when we begin to sharply curtail these concepts of reciprocity, when we begin to sharply curtail the whole idea that this, the richest Nation in the world, does not have some obligation in terms of trade relationships to the emerging nations of Africa and the other developing countries. This is a kind of frightening thing for me.

Admitted, Mr. Miller, that you have tempered this on page 7, where you say: "We have only urged that reasonable steps be taken in our national interests." But on the other hand, the very hard statements made by Mr. Olson and yourself suggest a direction that is kind of disturbing to me.

Mr. MILLER. I would like to say that we do not suggest the elimination of reciprocity. We do not feel that reciprocity currently exists. We do not feel that free trade exists in the world today. It is free only in one direction. To be free trade it must be free in both directions. This country cannot indefinitely survive with a deficit on foreign trade of \$6 billion a year plus.

Mr. ASHLEY. If the gentleman would yield, both of you gentlemen of course have had an opportunity to become aware of the trade legislation proposals that are really quite broad in their scope, proposals to which Congressman Mills referred in some detail in recent days.

Pursuing just for a moment Mr. Mitchell's line of thought, don't you take some encouragement from these directions that have been proposed with the possibility and perhaps likelihood that they will be adopted? Wouldn't that in fact promote the kind of reciprocity that is meaningful?

Mr. MILLER. It would certainly be a step in the right direction. Unfortunately I have not had an opportunity as yet to thoroughly ac-

quaint myself with Mr. Mills' statement on the floor of Congress, I believe it was yesterday. It was reported in the New York Times that I read this morning. I hope to obtain further information on it before I leave Washington to return to a meeting of the tanning industry now in progress in Florida.

I am not at all sure that these proposals would be of substantial assistance. If I may suggest one thing, in the New York Times report this morning there was substantial mention of tariffs, supplemental tariff duties or surcharges in cases of imbalance.

Mr. ASHLEY. I wasn't going to that so much as I was the arsenal of weapons that the President is asking for use in those situations where there are nontariff barriers of the kind that have been referred to this morning. There are a range of proposals which the President has asked for and which I think the Congress is going to treat sympathetically which most certainly would put him in a very different bargaining posture than he is in at the present time.

Mr. MILLER. They most certainly would. As I read the news reports, this includes the authority to impose quotas in selected industries where required. This would certainly be an assist. Quotas would be much more effective than tariffs, much less likely to cause trade wars, in my opinion. I am not a statesman nor a politician, but they would certainly be more effective in protecting the self-interest of this country and maintaining its ability to carry out its position in the world and its responsibilities in the world. Because, if we unduly weaken ourselves, we who look upon ourselves as the strongest Nation on the face of the Earth, we will be unable to carry out the responsibilities we acknowledge to the developing countries or any others.

Mr. ASHLEY. Thank you very much, Mr. Mitchell.

Mr. MITCHELL. Mr. Chairman, I have just one more question. I can't pass up this opportunity to preface my question with a brief comment on quotas. Apparently highly desirable quotas are in some areas but not so desirable when we start talking about minority employment. That is enough. I won't get into that. I do apologize. Mr. Chairman.

I am absolutely convinced that whatever we do in terms of our domestic economy, and obviously in terms of our international trade, will be integrally tied to the recent dollar devaluation. I fully suspect that there will be a further dollar devaluation. Have you had any opportunity at all to make an assessment of the impact of the recent dollar devaluation on both of your industries? Is it too early to make any kind of assessment?

Mr. OLSON. We have made some evaluations, but our crystal ball is no clearer than anybody else's as to what the outcome will be. I personally feel that there has not ever yet been a real float, that once there is a float, and an honest one, not overly supported or defended by any nation, except within limits—I don't mind the increasing of interest rates that have been suggested recently as something to help firm up the dollar a bit—that under that float you are going to get lots more stability than you had under that monstrous price fixing deal established in Bretton Woods in 1944. I say monstrous with respect to the later history of that. It was a wonderful giveaway program, the biggest giveaway program in the history of the world. Because it roughly overpriced American goods by about 17 percent and underpriced for-

eign goods by about that amount. I think the float is going to put our house in order.

Mr. MITCHELL. You are obviously saying that this is kind of speculative on your part?

Mr. OLSON. It has to be. You can only lean on such economists as Milton Friedman and a chap who wrote in the last week's Sunday National Times, a British economist of some note, I can't think of his name, who looked optimistically as to what would happen if we did have a float. I know there is lots of disagreement about this, and most people feel that there will be tremendous fluctuating rates all over the place. I can't see it. Because really, what is the exchange rate anyway but the resultant forces of all supplies and demands of every country, and hence the productivities of those countries? And having a stable exchange rate doesn't mean that you have economic health underlying it, any more than it means that you should have fewer tubercular patients in the State of Arizona because of the climate. The reasoning has been so specious on this.

Mr. MITCHELL. Thank you very much. I have no further questions, Mr. Chairman.

Mr. ASHLEY. Mrs. Sullivan?

Mrs. SULLIVAN. I have two brief questions.

Mr. Miller or Mr. Olson, have either of you any knowledge of whether your researchers have knowledge of how our Department of Commerce and our State Department negotiators try to regulate trade between countries where our industry is drying up because of excessive imports? In other words, we have negotiations going on all along, and we were hoping several years ago that by the proper kind of discussion and negotiations that Japan would back off with some of her excessive exports, and agree to some kind of limitation. The idea was, through the right kind of, shall we say, administration pressure, or economic pressure, that they would agree to set a limitation.

Now, they did on some things, I believe, set up a certain percentage. But evidentially these limitations have ceased and we have done nothing to stop the flow of exports. Do you have any knowledge of whether any conversations are going on in the shoe industry?

Mr. MILLER. Yes, they have been. There have particularly been discussions with Japan in the last 6 to 8 months, I can't time them precisely, asking them to restrict their massive imports of cattle hides. They tentatively agreed to try to restrict their increase in imports of cattle hides. However, there is the strong feeling in our industry that fortuitously they had already contracted for such massive quantities that they are able to restrict further imports, at least temporarily, without any reduction in their needed supply. Japanese interests had gone around this country during the past year making long-term contracts with packinghouses for their entire output of cattle hides, reportedly at 1 to 2 cents above whatever the going market happened to be at the time of shipment, which means they are willing to pay 1 to 2 cents more at the time they negotiated these contracts than any American tanner was then economically prepared to offer that same packinghouse. Well, perhaps this is business acumen. We feel it is something more than that. We feel that it is an invasion of our market with the vast surplus of American dollars built up over years of trade

surplus there, and that they can afford, because of their lower labor costs, to pay more even though, if the barriers referred to earlier were dropped, the tanning industry of this country could supply the leather needed by the Japanese manufacturers cheaper and better than they can make it themselves. But, this would not fit their policy. They have been reasonably unresponsive, so far as we can gather, to the various requests of our Government negotiators. The several special assistants to the President for trade negotiations over the last 2 or 3 years. They talk, but they do not act.

Mrs. SULLIVAN. Looking at the figures, you can see that it has had no effect at all.

Mr. MILLER. Very little, if any.

Mrs. SULLIVAN. I can recall a number of years ago, when we were again in a very bad situation about lumber and plywood, and we are selling and shipping over to Japan all of these logs from the west coast without any restriction at all. There was a limitation put on for a time, I do not know how long. I wasn't able to be here yesterday to hear the lumber people testify, but can you tell me this. From your knowledge of the trade—and I am talking about high style and high quality, high grade shoes that are imported into this country from Japan and other places—are they sold at lower cost to the consumer?

Mr. MILLER. Not by the jobber or the retailer.

Mr. OLSON. No, it is our impression that they are not, that a far larger markup is taken on them, and a far larger markup is sustained on imported footwear. A shoe that does sell for \$14.95 or \$15.95 that is imported is indeed sold at \$20.95 or \$22.95, sometimes even in excess of a comparable domestic shoe.

Mrs. SULLIVAN. I am thinking of these shoes now that are sold to Americans, both the domestic and retail, that run into the \$20 to \$30 and \$40 price. I know that there is a certain feeling among many customers—you know, if I get something from abroad, I have something exceptionally fine. So I will pay \$50, because it is an import, they don't stop to think—this is killing off our own industry. This fact should be brought out more clearly to the buying public. The consumer is gaining nothing of the lesser cost of the imported shoes. Someone of course is making a much larger profit, the consumer, the ultimate wearer of those shoes is not gaining anything by helping people who make these shoes in this country be put on the unemployment rolls.

Mr. MILLER. If there is any advantage to the consumer, it is so small that it does not truly reflect the lower cost of manufacturing in the country of origin. The domestic industry, in other words, holds the price umbrella to which the imported product is brought up to within perhaps a few cents for sale to the consumer.

Mrs. SULLIVAN. These figures that you brought in here on the number of millions of pairs of shoes that they have reached in these past 15 years are gigantic. But this also includes all these very cheap sandals and moccasins and bathing shoes and all the other things that go in it—or does it only apply to leather products?

Mr. MILLER. These numbers are leather and leather type. These are not rubber footwear. Your bathing shoes, for instance, do not fall in that category, at least the bulk of them do not. So, these are nonrubber which includes synthetics, the vinyls, and so forth, which are growing



rapidly and which, incidentally, are a very substantial part of the production from Japan and Japanese owned factories in Taiwan, South Korea, Hong Kong, and so forth, that do produce that type. The bulk of the leather shoes comes from Italy, Spain, Brazil, and Greece. Recently shipments from Argentina are starting to grow. In the last several years Italy and Spain have been the largest sources for high-class footwear.

Mrs. SULLIVAN. The only other thing I have to comment on is that I would hate to see us put quotas or tariffs on all of our imports, because I think there would be retaliation. But if our country can't do it through the kind of negotiation that I have always believed went on between our Department of Commerce experts and our State Department experts in negotiating trade, then I think we must set up a barrier just the way they do to protect our own industries. I can remember 16 or 17 years ago talking to the minister of trade in Italy, when they were saying that we should come over and build the steel plants in their depressed areas. We talked about how much we needed to build plants in this country to put our own people to work. We asked why, when you are talking about us doing more and letting you have more assistance, why do you put a barrier on the number of cars that we can export into Italy and limit other imports into your country?

Oh, they said, we are building up our industry, and so forth. Of course they would export almost every car that they built, because their people weren't making enough to use their own product. This is changing today. Almost all of these countries now can use part of their own products. But most of them—and we helped build them up—have been building and producing everything for export. I think it is time we take a look now.

Mr. OLSON. Mrs. Sullivan, I think the path to completely free trade in the world is via their concept of orderly marketing where you share the growth of your market with your trading partners, and expect them to do the same with your goods. So the quota concept, if it is an orderly marketing concept, that pursues this principle, is not an insidious one, but gives an opportunity for all nations to enjoy markets in each other's countries.

Mrs. SULLIVAN. Can we write that kind of a law?

Mr. OLSON. I think so. Mr. Mills thought so just a year or 2 ago.

Mrs. SULLIVAN. If we can, I think we ought to do it and do it quickly, because we see industry after industry, not only in the shoe trade and the leather trade, but industry after industry absolutely at the mercy of imports. I have said, with automation and other things, after all, machinery doesn't buy the product that our country is capable of making, it is the people, and if the people don't have jobs, they are not going to be able to buy the products.

Mr. OLSON. Precisely.

Mr. MILLER. But the problem is, our technology is around the world in a few days now. We have no exclusive technology in this country today. We have exported everything.

Mrs. SULLIVAN. We have exported our technology, and they are using it to great advantage.

Mr. MILLER. Correct.

Mrs. SULLIVAN. Thank you very much.

Mr. ASHLEY. Mr. Koch.

Mr. KOCH. Mr. Chairman, I am sorry that I wasn't here for the meeting, but I was attending the Mass Transit Subcommittee meeting which has been going on all morning. You will have to forgive me. But I came up to hear the balance of the testimony.

Mr. ASHLEY. We appreciate your coming up, Mr. Koch, and the printed statements of these witnesses are of course available. They are not lengthy, and I would recommend them to you, because they are very well prepared and persuasive documents.

Mr. KOCH. I shall read them.

Mr. ASHLEY. There being no more witnesses, the subcommittee will stand adjourned until 2 p.m. this afternoon.

[Whereupon, at 11:50 a.m. the subcommittee adjourned for lunch to reconvene at 2 p.m. the same day.]

#### AFTERNOON SESSION

Mr. ASHLEY. The subcommittee will come to order. We are meeting this afternoon to receive the continued testimony on H.R. 5769 and related matters.

Our witnesses this afternoon are John Minnoch, president of the National Hide Association, C. W. McMillan, executive vice president, American National Cattlemen's Association, and Don F. Magdanz, executive secretary-treasurer of the National Livestock Feeders Association.

Gentlemen, will you come forward, please. Let me say that the temporary short supply of subcommittee members will probably be remedied. But we do have business on the floor of the House this afternoon, and other subcommittee meetings are being held. As you probably know, people interested in the short supply of lumber are in Washington in very considerable numbers this afternoon, and paying visits to their respective Congressmen.

So we will proceed as we must. I think I will call first on those who have prepared statements. Why don't we start with Mr. McMillan?

#### STATEMENT OF C. W. McMILLAN, EXECUTIVE VICE PRESIDENT, AMERICAN NATIONAL CATTLEMEN'S ASSOCIATION

Mr. McMILLAN. Thank you, Mr. Chairman.

I am C. W. McMillan, executive vice president of the American National Cattlemen's Association. In the interest of time, I do have a short statement that would perhaps be better for me to go ahead and read, or I'll follow whatever procedure you would like to follow, sir.

Mr. ASHLEY. That is fine, Mr. McMillan.

Mr. McMILLAN. The American National Cattlemen's Association sincerely appreciates this opportunity to present testimony on the subject of hide exports. Our organization speaks for the Nation's beef cattle producers and feeders. The association has members in 50 States as well as the affiliation of 44 State cattlemen and cattle feeder associations and all of the major national beef breed associations.

In recent years, an important market for U.S.-produced hides has developed in foreign countries or there would truly be a glut on the U.S. market. Because this market has developed, it has been of assistance to beef consumers in the United States. The reason for saying this

is that the hide is the single most important byproduct from beef cattle production. When a meatpacker buys an animal he is looking for a means to dispose of all "usable" parts. The value of these usable parts he calls the drop. If this drop is worth enough money, he often is able to sell the carcass for less than the cost of killing and processing it. He then makes up the difference in his margins through the sale of the byproducts.

If this byproduct value is sufficient, and hides often make the major difference, this provides a break for consumer beef prices at the retail food counter. Putting it another way, if anything happens to cause the hide market to decline substantially, the packer must adjust his margins. Initially, this probably would mean a decline in live cattle prices, but eventually it means a rise in carcass prices. As a consequence, beef would cost the consumer more.

The charge is often made there is a shortage of hides in the United States. This simply is not true. Attached are tables showing the production of hides and price data in the United States and other nations of the world.

Every animal produces a hide. In 1972, this amounted to over 43 million pieces. To date in 1973 about 6 million cattle have been slaughtered in the United States. This is slightly above the like period in 1972. With the larger cattle inventory estimated by the USDA on January 1, 1973, and the current cattle on feed reports, we expect between 2 and 3 percent more cattle to be slaughtered by the end of 1973 than during 1972.

With these figures it's easy to see that there is no shortage of hides available from domestic sources. Argentina and Brazil, on the other hand, have cut back on hide exports. This has had a major effect on prices paid in the world market, so prices have risen, causing some people to say there is a shortage of hides.

Significantly, however, the price of U.S. heavy native hides peaked in November 1972. On November 1 and 2 heavy native hide prices peaked at 46 cents per pound. They have now worked their way down to where on March 14, 1973, the price was only 28½ cents per pound. This is in spite of the fact that hide exports still maintain a high level.

I need not remind the distinguished members of this committee about the current difficulty with the U.S. balance of payments. The sizable export market for hides has been carrying its share of the burden of attempting to help our balance-of-payments situation. Unless export restrictions would compound this problem.

If anything is causing difficulty to the domestic tanning industry, it's the excessive quantity of leather footwear being imported into the United States. The quantity of shoe imports has grown astronomically in recent years. This has largely been brought about because of cheap labor in foreign countries as contrasted to wage rates in the United States. Ironically, U.S. hides have been flowing to those countries and the finished product has been coming back here.

It's our considered judgment that some reasonable quota system should be established so that excessive quantities of leather footwear will not continue to flood the United States.

The American National Cattlemen's Association sees no need for amendments to the Export Administration Act of 1969 as it does pertain to hides and skins and fats and oils. To the contrary, H.R. 5769 would amend (a) section 4(e). This is a step backward to consumers in the United States. On the other hand, we have no objection to an added section to the law embracing similar language in H.R. 5769, but there should be no tampering with the manner in which fats, oils, hides, and skins are dealt with presently.

Thank you for the privilege of appearing before your committee to present this statement.

[The tables referred to by Mr. McMillan in his statement follow:]

COMMERCIAL CATTLE SLAUGHTER—EXPORTS OF WHOLE CATTLE HIDES, AND HIDE PRICES (ANNUAL 1960-70, MONTHLY 1971-72-73)

	1,000 pieces		Hide price (cents per pound)
	Cattle slaughter	Whole cattle hide exports	
1960.....	25, 224	6, 889	13. 8
1961.....	25, 635	7, 646	14. 9
1962.....	26, 083	7, 119	15. 1
1963.....	27, 232	7, 971	11. 1
1964.....	30, 818	11, 502	10. 3
1965.....	32, 347	13, 309	14. 1
1966.....	33, 727	14, 189	17. 5
1967.....	33, 869	11, 852	11. 6
1968.....	35, 026	12, 879	11. 0
1969.....	35, 237	14, 778	14. 2
1970.....	35, 025	15, 222	12. 7
1971:			
January.....	2, 921	1, 207	10. 3
February.....	2, 619	1, 251	11. 8
March.....	3, 047	1, 611	12. 6
April.....	2, 888	1, 240	15. 4
May.....	2, 873	1, 304	15. 6
June.....	3, 155	1, 235	14. 6
July.....	3, 068	694	14. 5
August.....	3, 071	1, 166	14. 5
September.....	3, 140	1, 338	14. 8
October.....	3, 009	1, 565	15. 0
November.....	2, 924	1, 696	16. 3
December.....	2, 870	1, 656	16. 8
Total, 1971.....	35, 585	15, 962	14. 4
1972:			
January.....	2, 888	1, 270	17. 8
February.....	2, 774	1, 153	19. 1
March.....	3, 030	1, 686	23. 4
April.....	2, 763	1, 210	25. 6
May.....	3, 119	1, 437	27. 3
June.....	3, 144	1, 317	28. 4
July.....	2, 753	2, 152	28. 7
August.....	3, 212	1, 324	32. 4
September.....	3, 046	1, 290	34. 6
October.....	3, 192	1, 893	41. 9
November.....	2, 986	1, 733	43. 0
December.....	2, 867	1, 525	34. 5
Total, 1972.....	35, 774	17, 992	29. 7

BOVINE HIDES AND SKINS—ESTIMATED PRODUCTION IN SPECIFIED COUNTRIES<sup>1</sup> ANNUAL 1967-72

[1,000 pieces]

Country	1967	1968	1969	1970 <sup>2</sup>	1971 <sup>3</sup>	1972 <sup>3</sup>
United States <sup>4,5</sup>	42,116	42,739	42,335	41,362	41,860	43,300
Argentina <sup>4</sup>	13,520	13,831	14,787	13,784	10,800	12,000
Canada	4,406	4,554	4,158	4,044	4,100	4,230
Mexico	3,200	3,500	3,660	3,900	4,100	4,200
Brazil	7,810	8,732	9,480	8,556	9,400	9,400
Total EC <sup>4</sup>	20,352	20,921	20,322	20,605	21,000	21,270
United Kingdom	4,199	3,999	3,804	4,043	4,100	4,240
Total EC	10,396	11,457	11,659	11,003	11,400	11,600
U.S.S.R.	39,677	40,724	33,500	35,625	36,600	37,000
South Africa, Republic of	2,393	2,176	2,391	2,530	2,340	2,300
Australia	5,742	5,516	5,766	5,714	5,965	6,200
New Zealand	2,538	2,753	3,130	3,068	2,840	2,950
29 other selected countries	21,824	22,205	22,978	23,667	24,000	24,600
Total	178,173	183,107	177,970	177,901	178,505	183,290

<sup>1</sup> Estimated from cattle, calf, and buffalo slaughter.<sup>2</sup> Preliminary.<sup>3</sup> Estimated.<sup>4</sup> Includes an estimate for death loss.<sup>5</sup> Excludes Alaska and Hawaii.

Mr. McMILLAN. I would be very happy to try and answer any questions, Mr. Chairman.

Mr. ASHLEY. Thank you, Mr. McMillan.

Mr. Magdanz, would you proceed, sir?

**STATEMENT OF DON F. MAGDANZ, EXECUTIVE SECRETARY-TREASURER, NATIONAL LIVESTOCK FEEDERS ASSOCIATION**

Mr. MAGDANZ. Thank you, Mr. Chairman.

Just for the record, let me state that I am Don F. Magdanz, of Omaha, Nebr., the executive secretary and treasurer of the National Livestock Feeders Association.

We, too, appreciate the opportunity to appear, Mr. Chairman, and though I can tell you truthfully that Mr. McMillan and I have not collaborated on our statements, he has given you a picture of the hide situation. My statement is aiming more directly at the provisions proposed in the legislation, and the trade situation.

I must say at the outset that the National Livestock Feeders Association is not in favor of the amendments proposed in the legislation under consideration.

The proposed legislation directs the Secretary of Commerce to determine which materials or commodities shall be subject to export controls because of present or prospective domestic inflationary impact of short supply. In making said determinations, the Secretary is to consult with appropriate Government departments and agencies, and technical advisory committees made up of representatives of industry and Government.

The Secretary is further directed to develop forecast indices of domestic demand to help assure the availability of said materials and commodities on a priority basis to domestic users at stable prices.

We find the latter provisions especially troublesome and objectionable. The language is undoubtedly subject to varying interpretations, but as we read it, the amendment would most certainly refocus the intent of the Export Administration Act. The present intent focuses

on the protection of the Nation; whereas, under the amendment, the focus would be shifted to that of providing favored treatment for given domestic users.

This would come about by giving them unchallenged access to priority supplies at stable prices, which may or may not afford the producer an opportunity to cover his costs, let alone make a profit. The subcommittee is respectfully reminded that the word "stable" carries with it no connotation of high or low; prices can be stable at low levels—the case for years with hides and skins—as well as at high levels.

In addition, the bill would seem to give forecasts of domestic demand the dominant role in export control determinations, rather than actual conditions or developments.

Since section 4(e) of the current act pertains to agricultural commodities, the primary purpose of H.R. 5769 is evidently to alter the manner in which these commodities are treated under the law. In view of this, we are prompted to call attention to the amount of time and serious study which went into the writing of the current language.

The members of the subcommittee are aware that this part of the act was amended during the last session of the Congress. The National Livestock Feeders Association participated in the rewrite and strongly recommends that the existing language be retained.

One of the serious problems encountered with the provisions of this section prior to the 1972 amendment was that it was not sufficiently specific and clear to definitively guide the Secretary of Commerce in his administration of the act. We emphasize that the same problem would evolve under the pending legislation.

In considering H.R. 5769, we respectfully suggest that due weight be given, also, to the present and future role which U.S. food and other agricultural products are destined to play in world trade. These products currently make an important contribution to the U.S. balance-of-payments and in the future will provide even greater positive assistance to the solution of our serious trade deficit. In fact, it may be said that food and other agricultural products are the only bright light on the otherwise dismal U.S. trade front, in view of the extent to which U.S. industry has lost its favorable competitive position.

Surely, there is no problem more crucial to this Nation than its overwhelming trade deficit and the accompanying deterioration of the value of its currency in terms of the currencies of other countries. The Congress will be ill-advised, therefore, to fashion restrictive export authority, along the lines laid down by the proposed bill, giving certain U.S. processors of agricultural commodities favored treatment.

For years American consumers have basked in the sunshine of plentiful, high-quality, low-priced food of almost unlimited variety, conveniently available to them at the mere wave of their shopping lists. The same has been true of natural fibers. In fact, hides and skins are a good case in point, the low price of hides and skins was a serious problem of long-standing for the cattle industry. As late as the 1960's, many packers and hide dealers reported throwing hides of No. 3 grade into the rendering tank. This action is documented in the USDA publication, "Livestock and Meat Situation of January 1964." Even as late as 1965, the average price for heavy native steer hides was only a little over 14 cents per pound.

Beginning in 1959, an aggressive effort was undertaken to promote the sale of hides and skins abroad. This effort has achieved some success and it has been the only salvation for the hide dilemma. Now, those domestic processors and manufacturers who have been lulled into innovative, operational, and sales complacency by years of low hide and leather prices are screaming for the heavy hand of government to bail them out by restricting the foreign sales of hides and skins; when, in reality, their problems stem from substantial increases in unit costs, resulting from the failure of productivity to keep pace with escalating wage rates.

But let us go back to the statements regarding low-cost food, to which we might add animal feeds as well, and our serious balance-of-trade problem.

Other countries of the world, and particularly those which have made giant strides in reaching a higher economic plateau and are now in a position to upgrade the diets of their people, are casting their trading eye more intently at the United States and its unparalleled ability to produce food and feed grains. A current case in point is the action of Japan to waive its import duty on pork and purchase some 45 million pounds of U.S. pork; and, also, the move taken to increase its beef import quota 10,000 metric tons during fiscal 1973—April 1973 through March 1974.

Most certainly, we need all the export help we can muster to bring our trade with Japan into closer balance. For years, she has taken ruthless advantage of our "ivory tower," nonreciprocal trade policy; and Japan is most assuredly not alone in this regard. Our overwhelming trade deficit vividly reflects the extent to which other countries around the world have followed suit.

With several of these countries now turning their trading attention to U.S. foods, feed grains, and natural fibers, hides and skins in particular, we now see, on the horizon, a growing world demand for our production of these products and commodities, and—what is most important—an opportunity for such foreign sales to lend substantial assistance to the solution of our very serious balance-of-payments problem.

No other problem faced by this Nation deserves more serious attention on the part of the Congress and we urge the members of this subcommittee to bear this fact in mind.

It is interesting to note that, without exception, as personal incomes increase to the point of making it possible to buy other than bare necessities, people turn to increased consumption of animal food products. This is true whether their basic, traditional diet is rice or some other foodstuff.

The American farmer with his unequalled technical production know-how and land resources has put the United States in a unique position to take advantage of the food consumption trends now developing in the world and of the growing world demand for hides and skins.

Any inclination on the part of the Congress to attempt, through legislation, to stop the hands of time, or turn them back, can result in serious harm to the largest and most basic industry of this country—namely, agriculture—and can seriously jeopardize the chances of bringing our trade into balance.

Therefore, this association respectfully, but strongly, urges the subcommittee to indefinitely postpone action on the pending legislation now being considered in the form of H.R. 5769.

That concludes our formal statement. Mr. Chairman. Again, I appreciate the opportunity to present it to the subcommittee. When the time arrives we will be happy to respond to questions if there are any.

Mr. ASHLEY. Thank you, sir.

Mr. Minnoch.

#### **STATEMENT OF JOHN MINNOCH, PRESIDENT, NATIONAL HIDE ASSOCIATION**

Mr. MINNOCH. Mr. Chairman, I have to apologize at the start for not having a formal statement, because I didn't have any notice of this. I was en route to the Bahamas to attend our own convention when I got the notice and I had to rush back here.

Mr. ASHLEY. If you have made the trip from the Bahamas just to be with us, we will certainly forgive you.

Mr. MINNOCH. I appreciate the opportunity, and I have done the best I can to compact this thing so that it will be presented easily and quickly.

First of all, I would like to touch on a couple of phases of the hide situation that I think are not generally known, sometimes not even by people close to the trade.

First of all, we hear a lot about Argentina. Let's remember that in Argentina the tanners are subsidized and it makes a big difference. Their leather goes out and you don't see it in the hide export statistics, because they are shipping out semifinished leather. These shipments are going to show up in statistics on leather, not on hides. But what do you think they make that semifinished leather from, wood? No, they have got to use domestic hides any way you put it together.

The reason I mention that is because right now their breeding is at the highest level of all times, which shows they have not been losing out as far as rebreeding their cattle. That means that sooner or later you are going to have hides and plenty of them from the Argentine. Now, whether it will go out in the form of hides or leather makes little difference, because you can only make leather with hides. I emphasize that because it is a very important point. Too much stress has been placed on this Argentine situation.

Mr. ASHLEY. On that point, it does make a difference whether it goes out in hides or semifinished products.

Mr. MINNOCH. You are still using the same number of hides.

Mr. ASHLEY. But the point is, if the Italians and the Greeks and the other hide-using countries don't have hides available from the Argentine, they are going to look increasingly to the United States for their hide supply.

Mr. MINNOCH. That may partially be true. But I don't think it is true to a large extent. Italy right now is looking for reject hides. They use the rendered hide—this is the point I was going to make. We overlooked rendered hides in the last statistics of commerce during the period just prior to the last bill, the previous bill on hide controls. They were not included in the preliminary statistics; these are hides



from dead animals. So you still have another 600,000 rendered hides to consider. I say that will make a big difference too, because you don't take just the slaughter, you have to take those dead animals as well. Every dead animal has got a hide the same as every live animal.

The way I point this thing up, I project about 38,600,000 hides this year. That will include 600,000 rendered hides. I have tried to be conservative on that. I don't think anyone has any very accurate statistics on rendered hides, not even the National Renderers Association which has been in close touch with me. But, at today's prices for rendered hides more are being taken up. This should increase the total rendered hides available.

The thing is, tanners use about 16 million hides. Remember, their wettings have been going down, not up, by and large. I can't conceive all of a sudden why they are going to push up their products. Their wettings for 6 or 7 years have gone down except for 1 year. Now, how all of a sudden are they going to go up? They haven't been able to use the consumption. But our slaughter is going to go up. What are we going to do with this? Unless used for leather, all you can do is throw it in the glue vat, and then it won't be profitable for anybody. It is not like taking a hide—you don't treat it like a textile or some other commodity. The animal doesn't stop breeding. I point that out because it is an unusual commodity in that respect.

Now if they use 16 million, if the tanner uses 16 million, and then there are 18 million approximately that would go back for export, you are going to have a surplus of 4,600,000 hides even if the tanners use all they are doing now. I don't think they can. I mentioned that because you could glut the market.

All right. The second thing that I have on my agenda here is this. In talking of the Argentine situation, if tanners would spend the time, I believe, as much time in getting their restrictions overseas lifted as they are trying to get exports on, and market their product, I don't think they would need export controls or any other controls. I say this because I am the only one in my office—and I worked hard to get our markets and build them, nobody did it for us—and I don't see why they don't spend time building markets the same as everybody else. Why should special consideration be given to anyone? It is an important factor, because we could tear down all the goodwill we have built up for years in these markets. It took a long time to build them, and it took a lot of money.

Now, there is another thing that I feel is quite important and that is this. Lately we have had it come back to us that there has been an attempt on the part of at least some people in Government to get these people overseas to stop buying hides. This in my opinion is wrong. It is putting controls on by innuendo. The mandate was very specific, it should not be done unless they consulted the Secretary of Agriculture and he felt there was a need for those controls.

Now, if an agency is going to take it upon itself to go overseas and tell them not to buy, that is in complete violation in my opinion of the mandate of Congress. I wanted that definite in the statement, and in the future I intend to use it. Because if they are going to be allowed to do that there isn't any sense in us coming to Congress and consulting on bills with legislation that is going to be ineffective after passage. We have been very fairly treated, but this thing is definitely out of

line. I have never had that in the 25 years I have been with the organization.

Also there is another thing that comes to mind. We have heard a lot about the high prices causing this great differential. Generally speaking, the hide only takes in about 70 to 80 cents, that is all there is in a pair of shoes. Even the Department of Commerce at their last hearings gave the figure 80 cents. Now, how would that justify by any stretch of the imagination shoe price increases of from \$2 to \$6? Now, if it doesn't justify it, then where does the rest of the \$5 or \$6 come in? Why don't we go after them if they are more responsible for prices going up? Why don't we go to the things that really cause shoe prices to go up? It seems that we are always the target for this thing.

I suggest that something should be done to go through this very carefully to find out what is causing it. Another thing on shoe imports. I am not going to go into whether the shoe manufacturer is a victim of the system or not. I don't know. I have my doubts, frankly, because I think markups if really examined carefully might lead to some interesting conclusions. Be that as it may, I am opposed to them asking for shoe imports to be curtailed when they themselves are doing the importing. That is just unfair, to ask other people to go along with them and curb imports when they are the people that are largely doing a lot of the importing. If they want the system corrected, I say they should clean their own house and start with themselves. I think that makes pretty good sense.

I may be outspoken here, but with the lack of my brief I have tried to get straight to the principal points, and if I raise my voice a bit, it is not because I am trying to be impudent. I hope you will realize that.

Also at our national convention, Irving Kent, a very well-known exporter with Chilewich Corp., made some interesting comments—this is his statement, not mine, but I respect his opinion—he said at the National Hide Association convention this past week that man-made materials were not the primary reason for the rise and fall of high prices. He attributed price changes largely to currency uncertainty. He felt that when the currency stabilized the hide price would have a better chance of stabilizing. Now, this man does extensive exporting. He also brought out that the Japanese right now are reselling our U.S. hides against the devalued dollar. Now, they have bought them on large long-term contracts, some of them, and right now they are our competitor right in our own market. So we have our problems, too, as well as the other segments of the industry.

Mr. ASHLEY. You are going to have to excuse us. We have a vote. The subcommittee will stand in recess temporarily.

[A short recess was taken.]

Mr. ASHLEY. The subcommittee will come to order.

Mr. Minnoch, have you concluded your statement?

Mr. MINNOCH. No; I have just a few things yet.

Mr. ASHLEY. Will you proceed, and keep it relatively short, because I want Mr. Rees to have an opportunity to interrogate you.

Mr. MINNOCH. Yes, sir; I will.

There is a salient point here that I want to bring up near the very end, and that is this. If hides are short, then leather must be short. If you are going to control hide, then you had better control leather. That is all you can make out of a hide, is leather. So they both must be short.

I haven't heard anybody bring that out. If you haven't got the hides, then you haven't got the leather.

Mr. ASHLEY. We heard a lot about that this morning.

Mr. MINNOCH. Well, looking at it from this angle, there is also leather being imported into this country from Argentina. That is against our industry. We may be the ones that need this help if this continues. After all, if they are going to import leather—and our tanners are doing it, and possibly the shoe manufacturers—then what is going to happen to our hides?

I follow this on the price and I think that will just about finish me up. Native steers have dropped from 45 cents to 27½ cents. Colorado steers went down from 40½ to 22 or 23, based on where and when they were bought.

Mr. REES. The price of hides or the price of meat?

Mr. MINNOCH. No, hides; they dropped. Light hides are now pegged at 37½ and down.

Now, this whole thing, it seems to me, is controlled by price. We talk about shortage. Actually we are really talking about price. They wanted prices down, and they have got them down. But you know when prices were low they wouldn't buy them. If they couldn't buy them when hides were cheap, how are they going to buy them when they are expensive? I don't think the controls are going to make one iota of difference on the market, as far as I can see. Because in one instance we may possibly be outproduced by the Japanese anyhow. Their production is strong, make no mistake about it. This is a point that will have to be taken into consideration. You are going to have your problems regardless, unless they can get those restrictions lifted abroad and let leather in. Even if they did let it in I wonder if they could keep their production up enough to compete with them.

That completes my statement. I appreciate your bearing with me, because I know it wasn't too well organized, but I did the best I could, Mr. Chairman.

Mr. ASHLEY. You made a good contribution, Mr. Minnoch.

Mr. MINNOCH. Thank you very much.

Mr. ASHLEY. Mr. Rees.

Mr. REES. Your position is that we shouldn't have any controlled quotas on the export of hides. What is your position concerning the quotas which we have had on the import of meat from, say, Argentina and Australia?

Mr. McMILLAN. If I may start off, Mr. Rees, there is no limitation on Argentina, there never has been. There is no limitation on any beef coming in from any South American country.

Mr. REES. It has to be cooked.

Mr. McMILLAN. That is correct, because of foot-and-mouth disease. But there is no restriction as to quantity. There have been, because of the Meat Import Act of 1964, what we call restraint levels that have been in effect up until June 1, 1972, on beef coming in from countries such as Australia. I will speak to Australia, because they account from about 50 percent of the fresh, chilled and frozen beef and mutton imported into the United States. The restraint levels were suspended on July 1. The announcement also was made just prior to January 1 of this year that they were being suspended for 1973.

Mr. REES. But the Cattlemen's Association has been basically for this?

Mr. McMILLAN. Yes, the National Livestock Feeders Association and the American National Cattlemen's Association worked together toward enactment in 1964 of the Meat Import Act.

Mr. REES. Were most of those import restrictions for cheaper meats, hamburger, and such?

Mr. McMILLAN. Generally, yes.

Mr. REES. So that the import restrictions probably kept the price of hamburger up much higher than it would have been?

Mr. McMILLAN. Not necessarily. Because what is often overlooked is the total carcass, even from a fed beef animal. You have trimmings that are used to a major extent in grinding beef. They end up as hamburger as well. So it is not just a matter of obtaining, say, the low quality type of beef from cows. You also obtain a great amount from fed beef animals as well.

Mr. REES. I was just noting that you were kind of benefiting both ways; you were protected by import restrictions, but you don't want restrictions on your exports of hides.

Mr. MAGDANZ. May I respond to that, Mr. Rees?

There is one common misconception—I will address myself to the import situation—and that is that there are definitive markets for hamburger, for roasts, for steaks, and so forth. This is not correct. These particular cuts or kinds of meat are in competition with each other. In other words, a consumer will go in and choose whether she is going to buy a hamburger today or whether she is going to buy a roast or whether she is going to buy steak. So it doesn't really make any difference where this meat comes in, whether it comes in as hamburger or whether it comes in as steak, why it is still going to have an impact on the price of beef in general, and all meat also indirectly.

Now, with respect to the hides—and Mr. Minnoch has already touched on this—we have to ask this question, and very seriously: What would have been the price of hides in 1963, or 1965, or most any other year that you want to mention, had we not had an export market for hides?

Now, this is the low year, 1964, when the average price of native steer hides that year was 10.3 cents. We exported in that year 11,500,000 pieces, they are called, which meant 11,500,000 cattle hides, and yet our price was only 10.3 cents. What would the price have been had we not been able to sell those 11 million hides?

Mr. REES. No one is saying that you can't export. What we are saying is that when the United States gets into a domestic situation, such as existed last year, under the Export Control Act the Secretary of Commerce has the authority to look at both sides and make a decision to cut down the amount of hide exports. What this act did, before Mr. Gonzalez' very well managed amendment was put into it, was allow the Secretary of Commerce to put restrictions on exports when it was felt that the importation was very adverse to the domestic economy. Now section (c), which is the amendment, completely exempts all agricultural commodities, including animal hides, and says that there can be no controls in a domestic situation where the supply of such commodities is determined to be in excess of the requirements of the domestic economy.

I don't see how it would affect you if we just removed that whole section and treated agricultural commodities like any other products. This would allow the Secretary of Commerce to make a determination after consulting with you, as we have provided in the Ashley bill, and decide whether there was an adverse price effect on the domestic market. The Secretary of Commerce has not used this power very often. It is only when we get into a serious situation, such as one involving scrap metal, logs, or cattle hides, when the domestic economy is affected, that the Secretary has used his power. When he does use the power, it is only for a short time so that the market can more or less get back in the swing. But I don't think that the Secretary at any time would say that you can't export any hides. I don't see why you need this, because just in looking at these figures you are reading from, you did very well without it. I don't see that it really has affected the market that much. Actually, your exports increased a bit, not to much, and your prices went up to a peak and started going down. Why do we even need that section exempting a good part of the products of this economy from control by the Secretary of Commerce?

Mr. MINNOCH. May I make a comment Congressman?

In 1966 we put on controls and the Department of Commerce, at hearings a year or so ago, 1969, practically admitted that the controls that you put in at that time were ineffective. They admitted that they were poorly operated. How are we to believe that they are going to do any better again?

The thing that we run into, Congressman—I think it is a good point to clear up—is that many times when these things come on we are not properly consulted. During the last one only twice, as I recall, did I have any contact with Commerce at a higher level. You are talking about hides, and they don't take time to even consult the association that is handling them.

Mr. REES. If you look at the bill H.R. 5769, you will see that what we are attempting to do is put emphasis on these industry committees. We are trying to get the Secretary to act early to anticipate a crisis rather than jump in during the middle of it, so that we have a more orderly process in cooperation with industry in instituting controls when they are necessary. Don't you think that is much better than what is currently done?

Mr. McMILLAN. Mr. Rees, may I comment?

In looking at the language of the Gonzalez amendment it says, "the Secretary of Agriculture shall not approve the exercise of such authority." What this is doing, in my judgment, is giving the Secretary of Agriculture an opportunity to review an action of the Secretary of Commerce. After all, when you are dealing with a food commodity or with any other agricultural commodity, hides included, who within the Cabinet is best qualified to review it?

Mr. REES. Why not leave the first sentence——

Mr. ASHLEY. Read the rest of it.

Mr. REES. Why not leave the first sentence, and then strike the balance of the paragraph?

Mr. ASHLEY. If the gentleman will yield, I think the record should show that he only cited the procedural administrative part of it. What we say is that the Secretary of Agriculture is bound to determine under a new criterion, and only for hides and agricultural products, whether

or not domestic supply is in the excess of domestic demand. We don't do that for any other product. I think that is a rather telling kind of requirement. Because under that requirement there is no way in the world that there can be a finding of short supply for hide or timber or anything else.

Mr. REES. But Mr. Butz will probably grind the hides up in the hamburger.

Mr. MINNOCH. I will say one other thing. There is an historic thing here with the tanners. I have been here quite a while. Through the Korean conflict I have had it. In 1966 I have had it, and in 1964 I have had it. Don't you think it is time that that industry began to solve its own problems? I mean this seriously. Every 2 or 3 years they have a problem. They have had them when there wasn't this kind of a situation. I think really that there is something in the industry itself that needs correcting.

Mr. ASHLEY. When you say solve its own problems, you mean starting with agricultural subsidies, with the constraints that are put on the imports of beef and so forth; is that what you mean, get rid of all of that?

Mr. MINNOCH. No. I look at it this way, that even if they made all the shoes they could make out of the leather they couldn't supply this country, we would have to have some substitutes. I don't want any substitutes, because it is not my commodity. But I am not foolish enough to realize that that is going to happen. I don't think if the tanners make every piece of leather they could that they could supply the country with shoes.

Mr. REES. I don't think they are saying that.

Mr. MINNOCH. I think I could prove these facts.

Mr. REES. I don't think they could produce shoes low enough, because it is a labor intensive product.

Mr. MINNOCH. Now you are hitting the core. Not high prices.

Mr. REES. It is a combination of both.

Mr. MINNOCH. You could give the hide away and I don't think it would leave a drastic effect on shoe prices. I mean it. What could it raise the price 70 cents, 80 cents, or over \$1. That's a long way from \$6.

Mr. REES. Most of your shoe imports are cheap.

Mr. MINNOCH. I think time should be spent too on shoe markup. Nothing gets up over that level. When we went into the last hearings we got as far as the markups and it died. I would like to get a little examination into what some of the markups are and where the money goes over and above the price for hide and leather.

Mr. REES. To labor. Meanwhile, there are a lot of other aspects.

Mr. MAGDANZ. Mr. Chairman, may I suggest that I think it is absolutely necessary that we refocus the attention on what is really involved here on the part of people who seek export controls or quotas on hides. They constantly talk about quantity controls, the shortage of hides. The truth of the matter is that the whole argument revolves around price.

Mr. MINNOCH. That is right.

Mr. MAGDANZ. They are not concerned about the volume. The only thing they are concerned about is buying hides cheaper.

Mr. ASHLEY. They would have a more difficult case before the Secretary of Commerce; wouldn't they? If it is a question of facts they

are talking about, obviously the authority under the Export Administration Act rests with the Secretary of Commerce in findings that he makes with respect to short supply.

Mr. MAGDANZ. It did, except that even under those circumstances, when he put the export quotas on last year, he still put them on, and it was still a matter of price—yes, they were announced on July 15. That is the reason for the little clause in this amendment, the Gonzalez and Curtis amendment, that made the action retroactive to July 1, to negate what had been done. But it still is a matter of price.

But that is what I was trying to develop here a few minutes ago when I pointed out the price of these hides back before.

I would also like to continue to show that from 1960 on through 1971 that the domestic use of hides was still practically the same every year. It ranged from a low of 18 million in 1961 to 22 million several years in there, 1966, 1967, and 1968.

The point is, with all these hides being shipped out, and with the price low, from 10 to 14 cents, our domestic people still used only about the same quantity of hides. They are not interested in quantity. They are interested in cheaper price, and as producers of those hides, we object.

Mr. McMILLAN. Mr. Chairman, if I may comment in the context of this, we haven't mentioned another incident that took place. The reason that this language is geared to the Secretary of Agriculture is because we are dealing with an agricultural product, and last year was the second time the Commerce Department acted to restrict hide exports, the first being March 1, 1966. I can vividly recall in 1966 was that if there wasn't something done to cut down the exports of hides, the price of shoes was going to have to rise. They did cut off exports. We cattlemen took about \$4 a head less in terms of the value of our animals, and the shoe manufacturers and the tanners raised their prices anyway.

The point I am making is this. On two distinct occasions the Commerce Department acted in a way we felt to be contrary to the best interest of domestic agriculture. This is why we feel strongly that domestic agriculture should have a review clause here with the Secretary of Agriculture passing judgment.

Mr. ASHLEY. Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

I think the real advantage of the testimony we have just received from you gentlemen is that it points up a deficiency in the legislation. That is, if we allow these committees to make recommendations; and these committees are composed of the users of the product, without taking into consideration the views of the producers of the product, you could find the user being motivated to try to prohibit exports because it would be to his benefit. It would mean a surplus of supply in the domestic markets. It says processors. I don't know how the exporter would be considered a processor. He just buys the raw hides, doesn't he, and sells them overseas?

But to me, the producer must be considered as well, the man who is growing the cow. The man who is slaughtering and butchering the cattle must be considered; because when he gets ready to bid on the cattle on the hoof, one of the things he takes into account is how much can he get out of that hide.

Now, Mr. Minnoch, you made a statement that Argentina subsidizes their leather.

Mr. MINNOCH. That is right.

Mr. BLACKBURN. How do they subsidize it?

Mr. MINNOCH. I would have to check carefully on the figure, but roughly I understand they get about 8 percent subsidization through the Government. The Government actually subsidizes them to ship leather or semifinished leather. No wonder they ship leather.

Mr. BLACKBURN. When they get ready to ship a hide out of the country for a dollar—

Mr. MINNOCH. Not the hide, the leather. That is why the exporters down in Argentina are shipping leather.

Mr. BLACKBURN. Let me back up. It is my understanding, then, that there is a direct subsidy to the exporter of leather in Argentina to encourage the exporting of leather.

Mr. MINNOCH. Either the exporter or the tanner.

Mr. BLACKBURN. You made another statement too. You said that the shoe manufacturers were doing the importing.

Mr. MINNOCH. Not all together, but they are doing their share.

Mr. BLACKBURN. Are they importing finished shoes to supplement their own production?

Mr. MINNOCH. Yes; whether to subsidize their own production, or to get the low priced shoes, call it what you like.

Here is a pair of shoes on my feet. I bought them from an American shoe firm for less than \$9, including the tax, imported from Italy by a well known shoe manufacturer, a prominent one.

Mr. BLACKBURN. They were sold in this country?

Mr. MINNOCH. Sold in this country. I bought them in Louisville.

Mr. BLACKBURN. For \$9.95.

Mr. MINNOCH. Less than that, less than \$8.50.

Mr. BLACKBURN. What would that shoe cost if it were produced here?

Mr. MINNOCH. I don't think you would even put the workmanship on that shoe. It is not that type of shoe. It may even be hand sewing, all leather sole, and they had an all leather heel when I got them. I guess this is the second year I have used them.

Mr. BLACKBURN. What would be the benefit to the shoe manufacturer to impose quotas on exporting of hides if he needs to buy the product from overseas production sources?

Mr. MINNOCH. Well, I can start with this. Every tanner gets first call on every hide that goes out of this country. So the hides are there.

Mr. BLACKBURN. Domestic—

Mr. MINNOCH. Absolutely. All he has got to do is pay the price. So if he lets them go overseas, he has first had a chance to bid. If you only have five bananas available you are going to pay more for them than if you had 10. So you come back to this, he comes to a point where he can't compete with low-priced shoes, he can go over there and import them cheaper, and that's what he's doing.

I was in Spain and watched the shoe factory out there making shoes for Montgomery Ward. It is not uncommon.

Mr. BLACKBURN. You mean a domestic tanner will buy the best leather and then export it over seas for processing in the shoes, and then he will control the flow of it back into this country?



Mr. MINNOCH. No, that is the thing; if he did do that I wouldn't complain so much, because his leather was going out. But his leather output to foreign countries has not been that much. Actually his output of leather into foreign countries is not that much, even though there has been some increase.

Mr. BLACKBURN. As distinguished from hide?

Mr. MINNOCH. That is right. Because he has got restrictions in the other countries that won't let him export his leather. That is what I suggested, get the restrictions off, let him go to work and sell his product.

Mr. BLACKBURN. I was going to ask Mr. Magdanz this question. We are aware of the difference in wage rates in this country and the counterparts in other countries. What is the difference in productivity, and how are these differences in wages and productivity reflected in the final product?

Mr. MAGDANZ. Mr. Blackburn, I can't give you any differences in rate of productivity. I don't know that information. I don't know whether it is available or not. We do know that the wage rates are much lower. Apparently at least these people are willing to do the kind of handwork and labor that they do not only in shoes but in transistor radios and other similar type materials that our people here are either not willing to do, or they demand such a price for that their own products are not competitive with some of these foreign products. I can't tell you what the productivity is.

Mr. BLACKBURN. As I interpret what you are saying, then, where our shoe manufacturer uses a machine to do the stitching, a foreign producer might well use hand labor.

Mr. MAGDANZ. I think that would be correct, sir.

Mr. BLACKBURN. So the productivity I presume would be greater for the man using the machine, but because the wage rate is so much less for the man doing the handwork, he can still compete selling the handwork in this country. Is that what I understand about the \$10 shoe that you bought?

Mr. MINNOCH. I put it this way. Why is it that we can ship hides to foreign countries, take Japan or any country, and they make a profit even after paying the shipping charges? So it can't be the hide. That is what I am trying to bring out. If these other countries can pay the same price and higher because the price for an export hide is usually up, if they can afford to pay a higher price than our tanners and pay the shipping cost and still put out a product as cheap as this, then there must be something wrong with our setup.

Mr. BLACKBURN. Of course the testimony we have received pretty consistently has been that the shipments in foreign bottoms is an awfully inexpensive proposition compared with the shipments, say, by railroad in this country.

Mr. MINNOCH. That is a point. But you have got to remember, you have got to ship them by rail to get them to the sea. You are paying a double shipping charge. Not only that, you have additional salting, you have to use fine salt for hide in export. That is the conventionally cured type. You have also got handling charges, you have got labor for unloading, and you have got to truck them to the other plants. These are things that must be considered. When you say they are cheap,

a half a cent is often sometimes all the broker gets. So that it is not cheap, because the shipping charge will go more than that.

Mr. BLACKBURN. Per hide, or per pound, or half a percent of the sales?

Mr. MINNOCH. They usually go a quarter of a cent a pound, or a half a cent a pound and that all has to go into it. Then you have got handling charges on the other end.

Mr. BLACKBURN. All these things have a way of adding up. That is the way it is up here, a billion dollars here and a billion dollars there.

Mr. MINNOCH. But how can the other countries do it? On top of this they are making shoes.

It always goes back to me on the other end, what is wrong with our setup.

Mr. REES. Would you yield?

Mr. BLACKBURN. Yes, sir.

Mr. REES. I used to work in a shoe factory. I was active in a very popular field called time and motion, because I was big and can run fast. You can automate as much as you want in the shoe industry, but it is still extremely labor intensive. I suspect that Japan or Taiwan would have basically the same type of machinery that a shoe factory here would, because when you get right down to it, it is a little old lady stitching on the Singer sewing machine who is working both in Massachusetts and in Taiwan.

Mr. MINNOCH. But they can do it and we can't. That is why. I wonder.

Mr. REES. All you need is a sewing machine and a man who knows how to cut a piece of leather.

Mr. BLACKBURN. I appreciate you gentlemen's testimony. I think you have stimulated a lot of thought.

I personally am reluctant to go to stringent export controls. I am concerned about the strategic implications of rendering our productivity capacity, in shoes and other essentials below some level of national need. Whether it is 80 percent or 75 percent, somewhere we must protect our home industry. Anyway, I am glad we know what the problem is.

Mr. MINNOCH. We thank you very much for hearing us.

Mr. ASHLEY. Mr. Magdanz, in your statement on page 1 you say that the present intent of the Export Administration Act focuses on the protection of the Nation, whereas under the amendment the focus would be shifted to that of providing favored treatment for given domestic users. How can you really support a statement of that kind? The Export Administration Act says that there shall be authority under three different sets of circumstances to impose export constraints—one has to do with national security, and the second has to do with foreign policy, and the third has to do with short supply. Now, there is no particular focus under the act, the focus is on all three of these situations. When you say that under the amendment the focus would be shifted to that of providing favored treatment for given domestic users, I am constrained to question such language. If we are in an actual short supply situation, wouldn't you have to agree that what Congress probably had in mind when it passed the Export Administration Act was that in such a situation, if there is to be any

domestic price stability with respect to that commodity that is in short supply, it just might be necessary to temporarily constrain the flow of exports of that commodity. Don't you suppose that that is what Congress had in mind? If so, then how can you say that it has provided favored treatment for given domestic users?

Mr. MAGDANZ. In this way, Mr. Chairman, much of the argument for changing the language in the Export Control Act right now centers around the matter of hides and skins. We have no short supply of hides and skins. We are a long way from a short supply of hides and skins. There is no shortage at all. We will not argue with the situation or seaming consideration, shall we say, of export controls on something where there is a shortage.

Mr. ASHLEY. Who will determine that shortage?

Mr. MAGDANZ. The available supply and domestic useage. There is no shortage of hide.

Mr. ASHLEY. But who administratively would you ask to make that kind of judgment?

Mr. MAGDANZ. As of right now, it would be up to either the President or the Secretary of Agriculture.

Mr. ASHLEY. As you say, it used to be with a somewhat unfriendly Secretary of Commerce, and it is now with a more friendly Secretary of Agriculture.

Mr. MAGDANZ. It is simply a matter of determination of facts.

Mr. ASHLEY. I agree with that. But you would rather have that determination of fact made by the Secretary of Agriculture?

Mr. MAGDANZ. Very frankly, yes; because we had export quotas put on twice by the Secretary of Commerce when there was no reason to do it.

Mr. ASHLEY. That is your judgment, that there was no reason to do it?

Mr. MAGDANZ. There was no reason to do it, because there was no shortage of hides.

Mr. ASHLEY. That again is a question of fact.

Mr. MAGDANZ. Correct, sir.

Mr. ASHLEY. On page 3 of your statement you say: "We are prompted to call attention to the amount of time and serious study that went into the writing of the current language". By that do you mean the amendment that was first adopted on the floor of the Senate and then was adopted on the floor of the House?

Mr. MAGDANZ. That is the amendment to which I refer.

Mr. ASHLEY. Who wrote that amendment, do you know?

Mr. MAGDANZ. To the best of my knowledge, sir, it was written by bill writers in the Senate. I don't know which committee, but the amendment was introduced by Senator Curtis.

Mr. ASHLEY. I know who introduced it, but I was curious as to who wrote it.

Mr. MAGDANZ. Who actually wrote the language?

Mr. ASHLEY. Not who actually wrote the language, I know where that is done. I just wonder where the idea sprung from.

Mr. MAGDANZ. We certainly would not shy away from the fact that we had something to do with it.

Mr. ASHLEY. Well, that is candid. Because if there was time and study that went into it, it certainly came from sources other than

those here in the Congress with which I am familiar. We certainly, as far as the House of Representatives is concerned, never saw that language, and never heard of it until it was offered on the floor of the House by Mr. Gonzalez and others.

Mr. MAGDANZ. Of course it had already passed the Senate when it was brought up over here.

Mr. ASHLEY. Of course that is true.

Now, your statement, Mr. McMillan, seems to me to parallel that of Mr. Magdanz in the respects to which I have referred. You say that H.R. 5769 would be a step backward to consumers of the United States. Again, that really is not the purpose of the Export Administration Act. On the contrary, the purpose of the Export Administration Act in that provision which seeks to control export in periods of short supply is to make possible to the consumer prices that are reasonable. It seems to do this obviously by bringing supplies and demand into a better relationship.

You go on to say that you have no objection to the added section of the law embracing similar language to H.R. 5769. But you say there should be no tampering with the manner in which fats, oils, hides, and skins are dealt with presently. Which is to say, as I gather, this category of special treatment that is represented by the favorite industries that are the beneficiary of the Gonzalez amendment; wouldn't you have to agree with that?

Mr. McMILLAN. I go back to something we referred to earlier, Mr. Chairman. That is, predicated upon decisions in 1972 and 1966 rendered by the Secretary of Commerce, the adverse effect that those had upon the domestic cattle industry were based on bad information and the threat of higher shoe prices. There certainly was no shortage of hides on either occasion. I would say that, yes, the language would at least imply that someone else besides the Secretary of Commerce with Cabinet status and who is familiar with the commodity being dealt with is going to have an adequate opportunity to review the situation.

Mr. ASHLEY. Wouldn't you say that under the law as it is currently on the books that producers of hides and the producers of timber enjoy a somewhat different position than the producers of other commodities that are subject to the act? Isn't it true that there is a different set of rules for the producers of hides and the producers of lumber?

Mr. McMILLAN. I can't speak for the producers of lumber. With the language of the act, if you are classifying lumber as an agricultural commodity—

Mr. ASHLEY. Which it is not—timber is.

Mr. McMILLAN [continuing]. Then I would say that they have the opportunity for review that other agricultural commodities do or don't have.

Mr. ASHLEY. What do you mean do or don't have? What the law says is that the Secretary of Commerce makes a decision on the facts before him with respect to a short supply situation that may arise. Depending on his evaluation of that situation, he can impose constraints on the exports of such a commodity. Isn't that so? Now, that is not the situation, is it, with respect to hides?

Mr. McMILLAN. Again, getting back to my earlier comments—

Mr. ASHLEY. I don't want to go back to what, in your testimony, are adverse situations. I am just asking you what the application of the law is today. It is different? You are singled out for separate treatment; aren't you?

Mr. McMILLAN. In the wisdom of Congress in both the House and the Senate, in enacting this particular legislation, the amendment to the legislation adopted last year, they apparently felt that agriculture was entitled to some different consideration.

Mr. ASHLEY. Now, the consideration that you are entitled to, and which you support, is that the domestic demand has got to exceed domestic supply in order for there to be any application of export constraints. You talk a lot, both of you, about our balance of trade and our balance of payments. Doesn't it occur to you that we might, in balancing considerations that we must as a Nation, find it necessary or advantageous to try to meet with finite limits on our production capability of certain commodities to accommodate both foreign markets for balance of trade purposes as well as our domestic requirements? What I am saying is, doesn't it occur to you that it might be necessary in terms of national policy to try to accommodate both our domestic requirements and also export opportunities with respect to a given commodity that is finite in its availability?

We don't have an infinite number of hides or an infinite amount of logs, and so forth. In such a situation, however, you say that the balance of trade and the balance of payments can go hand in hand, because you are not going to agree to any kind of export constraints unless domestic demand exceeds domestic supply. That is a situation which simply is not foreseeable. What is happening is that there is—at least it is strongly suggested that there is—an excessive export, for example, to Japan, and it has gone up dramatically, and it has resulted at least in part in very dramatic increases in the cost of lumber domestically. There is also some suggestion that there has been a considerable export of hides, and that the situation domestically approaches one of short supply, because of that.

Mr. BLACKBURN. Would the gentleman yield?

Mr. ASHLEY. Of course.

Mr. BLACKBURN. I hate to interrupt, but there is a statement that I would like to submit for the record from A. Dewey Bond from the Washington office of the American Meat Institute in which he gives these figures—our estimates for the year, this is years, are roughly as follows: Production in the United States, 38 million hides; domestic tanneries will use 16 million hides; balance, 22 million hides. Export last year, 18 million hides; excess, 4 million hides. He goes on and says: You may be interested that this week the price of heavy native steer hides is 27½ cents per pound compared to the high point last fall of 45½ cents, a reduction of 18 cents, or over 40 percent. In addition, Colorado steer hide now brings 22½ cents compared with 40½ cents at last fall's peak.

Now, assuming that the gentleman isn't giving us false information—and I have no reason to think that he is—this doesn't indicate any shortage developing to me.

Mr. ASHLEY. I think that price is a factor, it is what is available at a given price.

Mr. BLACKBURN. Anyway, I thought we ought to consider this fact for presentation.

[The statement of A. Dewey Bond of the American Meat Institute referred to by Mr. Blackburn follows:]

STATEMENT OF A. DEWEY BOND, DIRECTOR, WASHINGTON OFFICE,  
AMERICAN MEAT INSTITUTE

My name is A. Dewey Bond. I am Director of the Washington Office of the American Meat Institute, the national trade and educational association of the slaughtering and meat processing industry. Among our over 300 slaughtering and processing members, we have many who are slaughterers and processors of cattle.

We do not object to the language in H.R. 5769 which provides for the "investigation" or collection of statistical information on the demand and supply of materials and commodities. However, we do take strong issue with the deletion from the Export Administration Act of 1969, Section (b) (1) Section 4(e), commonly referred to as the Curtis-Gonzalez Amendment, and the substitution of this bill in its place.

Congress last year clothed the Secretary of Agriculture with special responsibility to determine the necessity of export controls on fats and oils and animal hides or skins. We think that this is crucial and is in the public interest.

The Department of Agriculture already has at its disposal much of the information necessary for these determinations. Department officials routinely collect information on crop and livestock estimates, on slaughtering and processing of animals, and have personnel in foreign lands who advise on foreign production of agricultural commodities as well as demand for these commodities.

When export quotas were imposed on hides in 1966, there was a drastic lowering of the price of hides. In addition, their imposition damaged long established markets for hides and had a depressing effect on our balance of payments. The only benefit accrued to the domestic tanner is that he paid a lower price for the hide. No benefit was derived by the consumer as shoe prices continued to advance during the period of controls.

As we pointed out last year during the discussion of export controls on hides, the supply of hides was more than sufficient to meet the demands of the domestic industry. Since the first of this year the slaughter of cattle has been about 6.7 million head, or 2% greater than last year. We do seek the assistance of our government officials in increasing our exports of hides. With the recent emphasis on the part of the Administration on increased animal production, hides can be an important contributor to our balance of payments problem. We should be seeking broader markets for this commodity in foreign countries. Our estimates for the year are roughly as follows:

	<i>Million hides</i>
1973 Production in United States-----	38
Domestic tanneries will use-----	16
Balance -----	22
Exports last year-----	18
Excess -----	4

You may be interested that this week the price of heavy native steer hides is 27½ cents per pound compared to the high point last fall of 45½ . . . this is a reduction of 18 cents per pound, or over 40%. In addition, Colorado steer hides now bring 22½ cents compared with 40½ cents at last fall's peak. Thus the market indicates no shortage of hides for domestic tanners.

Since hides are an extremely important commodity to the meat industry, their value has an immediate and direct bearing on the prices of beef. Consumers are naturally concerned today about meat prices and especially beef prices. Thus no action should be taken that could unnecessarily add to the costs of beef to the consumer by lowering still further the value of hides. This goes a long way toward paying part of our processing costs of beef.

We urge that if it is felt necessary to have a separate statistical study for commodities as advocated in this bill that agricultural commodities be exempted since we are convinced that the Secretary of Agriculture today has the authority and ability to get all the necessary facts on such commodities. If the proposal is felt necessary for non-agricultural commodities, it should be added to

the Act and not substituted for the Curtis-Gonzalez Amendment which was enacted last year.

In any event, we do feel that committees for technical advice established in regard to agricultural commodities under authority of this Act should include producers and processors of those commodities as well as other segments of the industry.

Mr. MAGDANZ. Mr. Chairman, can I address myself to the question you were raising a moment ago having to do with hides and lumber?

I will confess that I don't know very much about the lumber industry. But first of all, could someone enlighten us as to how many logs, pounds, or whatever they are measured in, of logs were exported in 1972, 1971, and 1970?

Mr. ASHLEY. We have got all that.

Mr. MAGDANZ. Do you have those figures?

Mr. ASHLEY. Those are all available.

Mr. MAGDANZ. Now, can we also establish any kind of a record as to what percentage, or numbers, as the case may be, of lumber or logs was exported and was used domestically in a given year?

Mr. ASHLEY. How could it be exported and used domestically in a given year?

Mr. MAGDANZ. Part would be exported and part used domestically, if in years previously there was some export.

Mr. ASHLEY. Surely—we have developed those figures.

Mr. MAGDANZ. The reason I bring those up is that I think we have got an entirely different situation in lumber and cattle hides, because as we look back over the past 12 years, we find that we have not used any increased number of cattle hides domestically at all, which means that our domestic industry would not absorb the production of cattle hides. But I think at this moment they might absorb the entire production of lumber or logs. I make those observations without having the record of lumber usage or log usage in the United States and exports of logs. I think you will find an entirely different record situation here between hides and lumber. Yet if I read the amendments correctly that were made to the Export Control Act last year, the lumber people might be able to make a very good case in going to the Secretary of Agriculture and seeking a determination to show that the domestic demand or the domestic usage of logs would take all the logs that are produced, and there would be a shortage. But they can't do it with cattle hides based on the past 12-year record.

Mr. REES. They didn't get anywhere. The Secretary of Commerce didn't give them any protection on the export of logs.

Mr. MINNOCH. Mr. Chairman, there was one point that came up, and I would like to get it in, it is short, but I think it is important.

Mr. Ashley said—and I thought it was well put, from my standpoint—and that is, when you are talking about the two Departments, the Secretary of Agriculture and the Secretary of Commerce, you have to realize it has to rapport with industry. The rapport with the Department of Commerce was very poor in our industry, I will say very frankly. In fact, the only time we were called for a hearing on the last controls they phoned me on Saturday. If you want my honest opinion, I think they hoped I wouldn't be in. They did get me. But this is where the big trouble lies, when they come up with something they don't consult the people, you are talking about hides, and yet they never take the time to consult you. Then when they put controls on they

started at the very first steps with our quotas, and they picked the period to base your quotas when the year before there was a longshoreman's strike. What kind of quota do you think they were handing us?

With that kind of misinformation you can't take industry and kid them to that extent, they are not going to buy it that long.

Mr. REES. I would suggest you get a copy of the bill H.R. 5769 and read it, because this is the exact situation that the bill addresses itself to: The inability of Commerce for some reason to be able to anticipate, to bring industry in and discuss it before the price is hit. You also might read the Export Control Act. First, Agriculture must give an OK before there is a quota. But the second section of the amendment virtually prevents Agriculture from doing anything. Now, what if we just took the second section out, so that instead of going to Commerce you would go to Agriculture, but if Agriculture decided there should be some marketing order or quota, then the Secretary could do it without being handcuffed by the second section of section (c). I am talking about what the law is and what the bill is. I don't want to talk about anything other than what is here.

Mr. MINNOCH. I think it would be good if they could call the people in industry, either Department. But we asked for a conference, and we got nowhere with it. I think it would be a good thing, because it would clear up a lot of misunderstanding. In most cases we might possibly solve some of our own problems. That is what I was suggesting earlier, if the Department would call a conference of the leaders instead of talking to handpicked ones maybe we could get someplace.

Mr. REES. Now, you have agreed that this is a fine bill. What about the second section, section (c)? The first sentence in the section says that you go to Agriculture. Now, what about the second section, which handcuffs the Secretary of Agriculture? What would you think if we took that part out?

Mr. MINNOCH. I would want to get that reading again.

Mr. REES. There is a word "shall," that mandates the Secretary to keep his hands off if there is any exportable surplus whatsoever.

Mr. MINNOCH. If we took it off away from his authority, who would we give it to? That would be the next thing.

Mr. REES. I am just saying section (c) would be:

The authority conferred in this section shall not be exercised with respect to any agricultural commodity, including fats or oils or animal hides or skins without the approval of the Secretary of Agriculture.

And then just end it—that would be section (c).

Mr. MAGDANZ. Mr. Rees, I don't know why there should be any objection to setting out at least some guidelines here that tell the Secretary of Agriculture the circumstances under which he can give his approval.

Mr. REES. The guideline is not "shall", the guideline is "may". There is a big difference between the two words.

Mr. MAGDANZ. But based on historical records, it should be very easy to determine whether a supply of a commodity is in excess of domestic requirements or whether it isn't.

Mr. ASHLEY. I think Mr. Rees' point is that if you have a certain domestic capability and you approach that, but don't exceed it, then under those circumstances there is a heavy volume of exports, and that there can be short supply; isn't that so?



Mr. MAGDANZ. I disagree that when we say there is a heavy volume of exports, that that makes a short supply.

Mr. ASHLEY. You obviously didn't understand the question. What I am saying is where, let's say, on a scale of 10, and 10 is the maximum number that can be produced, we are at 9 in this country.

Mr. MAGDANZ. You mean domestic usage is at 9?

Mr. ASHLEY. Yes, it is within the purview of domestic producers to say, we are going to export on the scale of 4, we are going to take away from domestic consumption and send it abroad because their price is better.

Mr. MAGDANZ. Our point is, why should we allow any Government agency to determine what the price is going to be in this particular case?

Mr. ASHLEY. That isn't my point. What you say is, under any circumstance there isn't any such thing, as far as you are concerned, as short supply. If that is the position you want to take—if you won't even concede a hypothetical where we are approaching our domestic production capability with respect to a given commodity, and our domestic demand is close to but not in excess—you see, even in that situation, you would say, well, there could be no control of exports.

Mr. MAGDANZ. May I expand on your hypothetical situation just a little bit further. We are using the figure of 10. We are up to where we are domestically using 9 and exporting 1. We have a history back of it where we were using, shall we say, 6 and 4 and 7 and 3 and 8 and 2. If we had a history like that, and finally we got up to where we were using domestically 9 and exporting 1, this would show a very definite trend as to what was taking place, and would be entirely different, in fact exactly the opposite of what is taking place in the hide business.

Mr. ASHLEY. But the language—

Mr. MAGDANZ. Therefore we pose that kind of a thing. If we look at the hide situation, I can't give the same hypothetical relationship without computing it. But in 1960 we domestically used 19 million hides and exported six million. Then we came down here to 1971, and we exported or we used 19 million, and exported 15 million. We went in exactly the opposite direction of the hypothetical example that you were using.

Mr. ASHLEY. Let me just make one further point and then I will call on Mr. Frenzel.

You do remember, I am sure, that to get allies for your amendment last year you had the amendment written so that it included not just hides but all other agricultural products. So that we are not just talking hides, as a matter of fact, we are not just talking about short supply, we are also talking about inflationary pressures because of an excessive demand from abroad. There are some other factors and criteria that most certainly enter into this that we probably haven't spent enough attention on. We have focused on short supply, and you have come well prepared on that with respect to one commodity. You would have a tough time and you haven't convinced me one iota on that.

Mr. Frenzel.

Mr. FRENZEL. I have no questions, Mr. Chairman.

Mr. ASHLEY. Mr. Rees.

Mr. REES. I just wish you would read your amendment.

Mr. MINNOCH. I took note of that, Mr. Rees.

Mr. REES. You might just ask yourself what "shall not approve the power if during any period for which the supply of such commodity as determined by him to be in excess of the requirements of the domestic supply" means. It really means that if there is just one hide which is surplus, the Secretary of Agriculture can make no determination under the second sentence. That is what you do when you use words like "any" or words like "shall", those are mandated words, they are not guideline words.

Mr. MAGDANZ. Mr. Rees, I think we have both watched the operation of the administrative branch of the Government long enough to realize that there is certain latitude for those agencies under the language stated as perhaps restrictive, as they see it, if it appears as though we are going to reach the circumstance under which he could give his consent, that he would in some manner or another be able to do it even if he were to say, we are reaching the point, and as we get to that point, I can tell you that I intend to do so. There are all kinds of ways that he can exercise a degree of latitude even under the statute as it is written, so that I am sure an industry would be protected.

Mr. ASHLEY. That is reassuring.

Mr. MAGDANZ. I don't think I am speaking out of turn at all.

Mr. ASHLEY. I think you are; I do. I think if you are asking our country to rely upon administrative winking at the law, that may be going just a bit further than you want to go. That is obviously what you are getting at.

Mr. MAGDANZ. No, I don't mean to wink at the law, Mr. Chairman.

Mr. ASHLEY. Mr. Rees is right when he said that these words, fortunately or otherwise, do have a meaning in our vocabulary and our usage of the language. "Shall" is not "may", "any" isn't a specific number.

Mr. MINNOCH. I would like to make one suggestion in connection with these hearings, Mr. Ashley. I think you have been fair in trying to hear us all and give us a chance. I think as a followup it might be good if conferences could be held when the industry, whether with the department or what, and allow them—I think sometimes when they can sit down they may be able to reach some understanding.

Mr. ASHLEY. What possible value or purpose would be served by prevailing on your time or the time of the Commerce officials when the law is as it is presently written?

Mr. MINNOCH. That was one of the points I was going to make, if they sat down it might be that you could get the point across to them, and then maybe they wouldn't have much objection to changing it.

Mr. REES. I agree with you.

Mr. MINNOCH. I am certainly openminded. Minds are like parachutes, they don't function unless they are open, and I at least want to listen.

Mr. ASHLEY. Thank you all of you gentleman for being with us. We have certainly made good use of the time that we have had. We appreciate your forbearance while we had to go over and vote. Tomorrow we will hear witnesses as indicated in the schedule. The subcommittee will stand adjourned until 10 a.m. tomorrow.

[Whereupon at 3:50 p.m. the hearing was adjourned to reconvene at 10 a.m. on Friday, March 23, 1973.]



## SHORT SUPPLY/ANTI-INFLATION EXPORT CONTROLS

FRIDAY, MARCH 23, 1973

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 10.15 a.m., in room 2222, Rayburn House Office Building, Hon. Thomas M. Rees, presiding.

Present: Representatives Rees, Mitchell, Hanna, Blackburn, and Brown.

Mr. REES. Will the meeting please come to order.

We will continue hearings on H.R. 5769, legislation designed to protect the domestic economy from excessive export of materials and commodities in the face of domestic scarcity or serious inflation impact.

This morning we meet to take testimony with respect to the impact of the unrestricted import of ferrous scrap on the domestic economy. In this connection, we are reminded of the testimony of former Assistant Secretary of Agriculture Dr. John Schnittker before the Joint Economic Committee on February 23 in which he said:

There is a very serious reserve twist on internal prices of foreign commodities and other commodities related to the dollar devaluation, and at the present time there is a rush toward commodities of all kinds, particularly metals, but including scrap iron, lumber, and soybeans, so as the dollar weakens abroad there is a tendency to try to buy more commodities, and that accelerates our food price increases and other commodity increases at home.

The subcommittee has had information from the steel industry sources and the Department of Commerce which raises the question of whether the Export Administration Act is being properly implemented in connection with the export of scrap, and with this in mind we take the testimony this morning.

Chairman Ashley, who is chairman of this subcommittee, had a longstanding previous commitment this morning. He extends his apologies and regrets his absence and thanks the witnesses for appearing this morning.

It is about 10:15. I hope we can get through with most of the statements in about an hour so that the committee members here will have an opportunity to question the witnesses. If you do have a statement that is rather long, it might be best to give the highlights of the statement.

This will be a rather informal hearing, and I think perhaps it will be best that we hear all of the statements first, and, then, we can have the questioning, if that is all right.

Also, I hope that you will all read H.R. 5769, because in previous testimony this week we tended to discuss many things not specifically related to H.R. 5769. Also, I hope you realize that we are not the Department of Commerce; we are the legislative branch of Government. We do not have the power to put quotas on anything; all we do have is the power to vote on H.R. 5769.

If you have any specific suggestions regarding the language of the bill, I hope you will give those suggestions to the committee. The past testimony, as I said before, has tended to ignore the bill and the language in the bill, but we are looking for specific suggestions about what might go into the legislation.

The first witness is William H. Stapleton, vice president, Inland Steel Co., and chairman of the Committee on Critical Materials Supply of the American Iron and Steel Institute.

Mr. Stapleton.

**STATEMENT OF WILLIAM H. STAPLETON, VICE PRESIDENT, INLAND STEEL CO., AND CHAIRMAN, COMMITTEE ON CRITICAL MATERIALS SUPPLY, AMERICAN IRON & STEEL INSTITUTE**

Mr. STAPLETON. Good morning, Mr. Chairman, gentlemen.

I am pleased to be with you this morning, as I know my associates are.

I am William H. Stapleton. I am accompanied by William E. Mulstein, president, Lukens Steel Co. in Coatesville, Pa., and Paul Aiken, president, Laclede Steel Co., St. Louis, Mo., who, also, will make statements.

This statement is submitted on behalf of the American Iron and Steel Institute, a nonprofit trade association, whose member companies in the United States employ approximately 700,000 hourly and salaried workers and produce about 95 percent of the steel made in this country.

The institute testified before the Senate Committee on Banking, Housing, and Urban Affairs, International Finance Subcommittee on March 14, 1972, and filed a statement with this committee on June 1, 1972, during hearings on the extension of the Export Administration Act of 1969. At that time the steel industry expressed its dissatisfaction with the ineffectiveness of the procedure set forth by the act which authorizes the Secretary of Commerce to use export controls to protect the domestic economy from the excess drain of scarce materials and to reduce the serious inflationary impact of foreign demand. The industry had vivid recollections of the chaotic short supply conditions resulting from the uncontrolled exportation of 9 million tons of ferrous scrap in 1969 and 10.6 million tons in 1970, and believed that what happened then was contrary to the intent of the Export Administration Act. Failure to obtain action over the past 3 months to limit the current record-high exportation of iron and steel scrap confirms our previous contention that procedural changes are badly needed.

My statement will begin with a brief statement on the importance of ferrous scrap as a basic raw material in steelmaking. Second, I would then like to present data in support of the industry's request that ferrous scrap exports, including carbon, alloy, and stainless grades, be limited to 7 million net tons in 1973. We shall address ourselves to the three criteria which the Export Administration Act re-

quire to be met in order to impose short-supply controls, that is (1) domestic short supply, (2) abnormal foreign demand and (3) inflationary tendencies of price indicators for the commodity in question. Finally, I would like to depart from the subject of short-supply controls and comment briefly on some of the broader issues concerning ferrous scrap exports which this committee may want to consider.

Iron and steel scrap—more commonly referred to as ferrous scrap—comprises roughly 50 percent of the metallic input consumed in the manufacture of steel, with blast furnace pig iron the other principal ingredient in terms of volume. While a large portion of its scrap requirements is generated from its own operations—and that is known as home scrap—the industry remains heavily dependent on dealers and other outside sources for the balance of its needs. This applies particularly to the large number of electric furnace plants throughout the country whose metallic charge consists of almost 100 percent scrap. Of the 43 million tons of purchased scrap needed by the steel and foundry industries in 1973, 60 percent of this total will be required by the hundreds of smaller companies without blast furnace facilities.

It is not my intention to complicate this presentation with extraneous statistics. Pertinent data on the subject have been taken from monthly and annual reports of the Bureau of Mines for the years 1962 through 1972 and appear in a table appended to this statement. However, since problems germane to the scrap shortage question must be placed in perspective, some reference to statistical data is necessary.

Rising U.S. and world production of iron and steel in 1972 increased domestic demand for purchased scrap by 4.6 million net tons, or 13 percent over the 1971 level. Exports of U.S. ferrous scrap to foreign countries rose by 1 million tons to a level of 7.5 million tons, a 15 percent increase over 1971, bringing total purchased scrap deliveries to 46.3 million tons. Deliveries in 1972 were about 10 percent higher than the annual average in the prior 5 years and slightly higher than in the previous record high year of 1969 which was 46.2 million net tons.

Demand for purchased ferrous scrap in 1973 is projected at 55 million tons, including 43 million tons for domestic users and 12 million tons for export. I would like to emphasize that both domestic and export demand for ferrous scrap has already reached the level of these projections on an annual rate basis. U.S. raw steel production, for example, has been running at an annual rate of 150-million tons in 1973 to date compared to 133 million tons for the full year 1972. As for scrap exports in January of this year, 900,000 tons went out of this country and the lake ports, obviously, were closed. This gives you some idea of what the levels have been.

In light of all known facts and actual experience, steel and foundry analysts unanimously agree that the supply of commercial scrap cannot be increased by 9 million tons, or 20 percent in a 12-month period; particularly when immediately preceded by a similar period of record high activity. We therefore conclude that there will be a short fall in supply of at least 5 million tons, despite an anticipated decline of 1.5 million tons in our inventories reducing them to unworkably low levels. The sharp rise in scrap prices in late 1972, together with the difficulties experienced by domestic scrap consumers in obtaining needed scrap supplies, give support to our contention that a short-supply condition already exists.

Before proceeding to my next topic, I would like to comment on statements to the effect that the scrap capacity in this country has been raised in recent years by the installation of new shredders, balers, and other processing equipment. I am certain that members of this committee will recognize that processing capacity in itself means little and must be equated with the supply of scrap that can be generated and made available to the processing equipment. A very good illustration of this is in the Chicago area where a major shredder is only working on a partial basis. We agree that a higher level of economic activity in the United States in 1973 will generate an additional 1.5 million tons of prompt industrial scrap, and that the supply of obsolete scrap can be increased by 2.5 million tons this year, but there still will be a short fall of 5 million tons.

Exports of ferrous scrap in the last 6 months of 1972 were at the annual size of 8.4 million net tons, well above the average 7-million-ton rate in the past 10 years but well below the 12-million-ton mark projected for 1973. The real impact of exports on domestic supply was felt much more heavily in December 1972 and January 1973, when export shipments approximated 900,000 net tons in each of those months. Data for February 1973 are not yet available.

The December 1972 tonnage was substantially higher than in any other December in our 1955-72 study period, exceeding the December 1971 level by 90 percent and the average December for the previous 5 years by 54 percent.

January 1973 exports were also at a high for that month exceeding those of a year earlier by 160 percent and the January average for the previous 5 years by 77 percent. When seasonally adjusted on the basis of the previous 5 years, including the peak export years of 1969 and 1970, to reflect the closing of the St. Lawrence Seaway, scrap exports in December 1972 to January 1973 were at an annual rate of 13.3 million net tons. Foreign demand at this level is unquestionably abnormal in view of actual experience over the past two decades.

The steel industry projection of 12 million tons of scrap exports in 1973 has been confirmed in large measure by results of a survey recently undertaken by the Department of Commerce through official Government channels. The survey indicates that U.S. exports will increase 46 percent to 10.8 million tons in 1973, the highest level in history. Moreover the survey shows that shipments of major scrap-consuming countries will change from 1972 levels as follows:

- Japan—up 1 million tons, or 42 percent;
- South Korea—up 450,000 tons, or 100 percent;
- Taiwan—up 450,000 tons, or 100 percent;
- Italy—up 275,000 tons, or 38 percent;
- Mexico—down 120,000 tons, or 16 percent;
- All other countries—up 1.3 million tons, or 46 percent.

The industry believes that its projection of scrap exports is accurate and valid, and if not limited, will increase by 60 percent this year. Moreover, we contend that even the 46 percent rise forecasted by commerce meets the criteria of abnormal foreign demand.

According to the American Metal Market, a trade publication, the composite price of No. 1 heavy melting scrap in Pittsburgh, Chicago, and Philadelphia, was \$48 per gross ton in the week ended March 9, 1973, as compared with \$37 6 months earlier and \$32 at the beginning

of 1972, a 50 percent increase in a little more than 1 year. Other principal grades of scrap show similar price gains over the same period. Some attribute the rise in scrap prices as much to the growth in domestic demand as to the increased in foreign demand. Facts and figures do not support such an analysis. Of the \$16 per gross ton increase since the beginning of 1972, approximately \$6 or 37 percent, of the rise occurred in the first 10 months of the year reflecting the steady upward trend in both domestic and foreign demand. Ten dollars, or 63 percent of the \$16 price inflation has taken place since November 1972, during which time deliveries to domestic scrap consumers have declined by an estimated 400,000 tons monthly, while monthly exports to foreign markets have increased by 50 percent or 300,000 tons a month. Therefore, we attribute the predominant portion of the price inflation to the increase in export demand.

The \$10 per gross ton price rise since November 1972, or \$9.07 per net ton, will inflate costs of domestic scrap consumers by \$390 million in 1973. Another increase of the same magnitude which almost certainly will occur if scrap exports are not limited will double that amount to \$780 million, as estimated.

Thus, the steel and foundry industries have already experienced a substantial inflationary scrap cost impact over the past several months, placing individual companies in a very difficult financial position at a time when most of their other costs are also accelerating.

By mid-December 1972, it was apparent to us that the criteria for the imposition of short-supply controls as set forth by the Export Administration Act of 1972—short supply, abnormal foreign demand, and inflationary cost—were met in the case of ferrous scrap. Accordingly, a group of steel industry representatives met with Commerce Department officials on December 21, 1972, and requested that ferrous scrap exports be limited to a reasonable level and one that would not produce the chaotic short-supply conditions encountered in the 1969-70 period.

Subsequently, on January 22, 1973, the industry, in a written statement to Secretary of Commerce Frederick B. Dent requested that exports of ferrous scrap require licensing and that they be limited to 7 million net tons, with not more than 3.5 million tons to be exported in either half of the year.

The Department of Commerce is continuing to study the situation. As yet no action has been taken to prevent unlimited exports of ferrous scrap.

Exportation of iron and steel scrap in 1973 at current rates will adversely affect iron and steel production in this country and further lessen our ability to compete with foreign producers not only this year but for years to come. While this matter may be slightly outside the scope of today's hearing on short-supply controls, members of this committee may want to question why the United States, with a 1972 deficit of \$2 billion in steel trade, is the only industrial nation that permits unlimited exportation of a vital material such as ferrous scrap.

The United Kingdom in past years has exported about 400,000 tons annually, but quickly places an export embargo on all but the lowest grades when domestic requirements begin to rise. Other European Economic Community countries with a combined scrap generation



capacity not far below that of the United States limit aggregate ferrous scrap exports outside the community to 100,000 tons a quarter, or a maximum of 400,000 tons a year. In both instances mentioned above, export licenses are granted only on evidence of valid orders received, thus limiting the speculation factor associated with rising foreign demand. In contrast to the EEC situation, the current U.S. monthly rate of unlicensed exports is more than double, and soon will be triple, the allowable EEC annual rate. Japan exports no scrap except during infrequent recessionary periods when it may barter relatively minor amounts in its trade with other Asian countries. The Soviet Union exports some scrap to countries outside Eastern Europe, but in small volume.

Additionally, this committee may wish to consider whether foreign cartels, such as that operating on behalf of the eight largest Japanese steel companies, should be permitted to pursue policies of purchasing scrap in the United States which are designed to prevent scrap prices in their own markets from rising above controlled levels. Japanese steelmakers have attested to this fact on many occasions, and an extract from the Japanese Commerce Daily on this subject is appended to this statement.

We do not believe that this country can afford the luxury of allowing foreign cartels to disrupt our markets for this purpose. The foreign cartel benefits in two ways: (1) by stabilizing its home market scrap costs thereby enhancing its international competitiveness and (2) by initiating far greater cost increases for his U.S. competitors. For example, a rise of \$10 per net ton due to purchasing practices of a country importing 3.5 million tons a year—which happens to be Japan—will raise that country's cost by only \$35 million compared to the \$430 million aggregate cost increase to U.S. scrap consumers.

Finally, we would like to comment briefly on statements by some Government representatives to the effect that the exportation of ferrous scrap at above normal rates will assist the United States in redressing the deficit in its balance of trade. The logic of this reasoning is inconsistent since the countries to which the United States sells the scrap for \$40 to \$50 a net ton are essentially the same countries which add pig iron and ship back to us a far greater volume in finished steel products at \$161 per ton. We have little doubt that unlimited scrap exports will cause further deterioration in our steel trade deficit. Also, consider the compounded effect of unrestricted scrap exports on the balance-of-trade problem where the raw material is converted into finished products such as Toyotas having an adverse high-dollar trade impact.

In closing, Mr. Chairman, we would like to comment briefly on the amendments to the Export Administration Act of 1969 contained in H.R. 5769.

Section 4(e) of the act would be amended to authorize the Secretary of Commerce to undertake an investigation to determine which commodities shall be subject to export controls because of present or prospective domestic inflationary impact, or short supply, in the absence of such controls. We fully support this amendment.

Section 5(c) would be amended to authorize the Secretary of Commerce to appoint a technical advisory committee for commodities, either subject to, or under consideration for, export controls, in order to evaluate technical matters, licensing procedures, worldwide availability and use of domestic production facilities and technology. We also support this amendment.

The present statute provides broad authority to the Secretary of Commerce to impose export controls when the statutory criteria are met. We believe it was the intent of the Congress, when enacting the statute, to ameliorate the present and prospective inflationary impact on the economy, of commodities in short supply, due to abnormal exports of the commodity. Ferrous scrap is clearly in this category. Accordingly, we shall continue to urge the U.S. Government to apply the law, imposing reasonable limitations on the export of ferrous scrap.

Mr. Chairman, in conclusion, I would like to state that those opposing export controls on ferrous scrap state that there is no shortage and that if you pay the prevailing market price, ferrous scrap is available in unlimited quantities. Our experience does not support this view. At Inland, we have had great difficulty in getting a sufficient quantity of No. 2 bundles. But, even more important, the history of commodity shortages show you can always obtain some of the material in short supply if you pay the prevailing inflated price in the marketplace.

For example, during the height of the copper and nickel shortages in recent years, which caused the Commerce Department to impose export controls on these commodities, one could always purchase some portion of these commodities at the extremely high prices prevailing for the product. This did not mean there was not a shortage in national terms. There was, causing Commerce to impose export controls. A similar situation exists in ferrous scrap today.

Thus, to indicate that a rapidly rising price is not an excellent example of whether or not the shortage exists is to ignore the facts associated with practically all commodity shortages that have occurred in recent years in the United States.

That completes my statement. Thank you, Mr. Chairman.

Mr. REES. Well, thank you, very much.

[The following table and excerpt from the Japan Commerce Daily of Dec. 19, 1972, was submitted for the record by Mr. Stapleton:]

SELECTED DATA ON IRON AND STEEL SCRAP, SHOWING VOLUME OF PURCHASED SCRAP RECEIPTS (MILLS AND FOUNDRIES) RELATIVE TO TOTAL SCRAP CONSUMPTION AND THE IMPACT OF SCRAP EXPORTS ON SCRAP SUPPLY AND PRICE

	Total scrap consump- tion	Less consumer scrap produc- tion	Change in con- sumer inven- tories	Domestic pur- chased scrap receipts	Ferrous scrap exports	Total pur- chased scrap receipts	Exports as per- cent of total receipts	BLS scrap price index 1967=100
1962.....	66,160	40,645	-352	25,163	5,014	30,177	16.6	95.2
1963.....	74,620	44,655	-526	29,439	6,217	35,656	17.4	91.7
1964.....	84,626	52,262	-518	31,846	7,766	39,612	19.6	109.4
1965.....	90,359	55,213	+215	35,361	6,129	41,490	14.8	112.6
1966.....	91,583	55,463	+546	36,666	5,774	42,440	13.6	106.6
1967.....	85,361	52,312	-395	32,654	7,506	40,160	18.7	100.0
1968.....	87,060	53,545	+89	33,604	6,565	40,169	16.3	93.0
1969.....	94,816	56,287	-1,330	37,199	9,037	46,236	19.5	110.5
1970.....	85,559	52,575	+1,116	34,100	10,648	44,748	23.8	138.9
January-June.....	(45,152)	(27,125)	(-192)	(17,835)	(5,351)	(23,386)	(22.9)	(146.5)
July-December.....	(40,407)	(25,450)	(+1,308)	(16,265)	(5,297)	(21,362)	(24.8)	(131.2)
1971.....	82,567	49,169	+826	34,224	6,478	40,702	15.9	114.6
10-year averages.....	84,271	51,213	-33	33,025	7,113	40,139	17.7	107.3
1972.....	90,404	51,399	-159	38,840	7,475	46,321	16.1	122.1
January-June.....	(45,259)	26,125	(-121)	(19,013)	(3,292)	(22,305)	(14.8)	(117.0)
July-December.....	(45,145)	25,274	(-38)	(19,827)	(4,183)	(24,016)	(17.4)	(127.3)
1973 estimated.....	102,600	59,600	-1,500	41,500	12,030	53,500	22.4	(2)

<sup>1</sup> Based on raw steel production of 146,000,000 net tons, plus 10-percent increase over 1972 in foundry operations.

<sup>2</sup> Index for January 1973 was 149.9.

Source: 1962-72, Bureau of Mines, covering steel mills and foundries in the United States.

[Excerpt from the Japan Commerce Daily, Dec. 19, 1972]

#### DOMESTIC SCRAP MARKET CARTEL MILLS JOINTLY BUY 76,000 TONS OF U.S. SCRAP

Smaller steelmakers belonging to the Kanto (eastern Japan) Committee of the nation's domestic scrap market price control cartel have jointly purchased four shiploads or a total 76,000 tons of U.S. scraps through two trading firms, Mitsui & Co. and Marubeni Corp.

The 76,000 tons, which are all composed of shredded scraps, will be delivered to Japan in the Jan.-Mar. period of next year.

The price of the U.S. shredded scrap fixed between the mills and the traders is estimated at the \$66.00-C&F-per-ton level.

The joint purchase of foreign scraps by the domestic scrap market cartel members is intended to hold down the soaring prices of domestically-produced scraps.

#### BLAST FURNACE MILLS TO TEMPORARILY STOP PURCHASES OF HIGH-PRICED DOMESTIC SCRAP

The nation's eight integrated steel mills, including Nippon Steel Corp. and Nippon Kokan K.K., will henceforth use imported scraps basically instead of high-priced domestic products to prevent scrap prices here from increasing further.

Even if they find it necessary to use domestic products, they will not buy them if their prices are higher than ¥16,000 per ton.

These emergency measures were decided when the Japan Iron & Steel Federation held a meeting of presidents of its member mills at the Keidanren Building in Tokyo last Friday to discuss ways to cope with the recent sharp upswing of the domestic scrap market.

Domestic scrap market prices have now risen to about ¥15,000 per ton as a result of the recent appreciable improvement in demand for steel products. The federation feared that should their prices be left to rise as at present, the steel market would eventually be overheated.

Scrap prices slumped heavily to less than ¥10,000 per ton in the fall of 1971 causing many waste scrap dealers to give up their business. With the recovery of

demand for steel products in recent months, however, they began to show a marked increase.

The rising trend is particularly notable at present as not only open hearth and electric furnace mills, which use steel scraps as a major steelmaking material, but also blast furnace mills have begun to boost their production of steel through stepped up use of such a material.

Steel industry sources said Monday that the newly adopted emergency measures were aimed at lowering scrap market prices by making blast furnace mills to depend on their own revert scraps and imported scraps and by allowing open hearth and electric furnace mills to obtain as much scraps as they needed from domestic sources.

**VICARY CREEK COAL MINE WORKS 58,000 TONS OF RAW COAL IN NOV. INCLUDING PRODUCTION FROM TENT MOUNTAIN**

Vicary Creek coal mine in the southeastern corner of Alberta Province, Canada, worked 58,100 long tons of raw coal in November, according to a report made by the mine owner Coleman Collieries Ltd. to Japanese integrated steelmakers purchasing the coal of the mine.

The contents of the report were as follows :

(1) Raw coal output in November :	<i>Long tons</i>
No. 2 level area, south section-----	48,434
Tent Mountain area-----	9,666
Total -----	<u>58,100</u>
(2) Raw coal feed of the washing plant :	
From No. 2 south section-----	48,925
From Tent Mountain-----	17,441
Total -----	<u>66,366</u>

Mr. REES. Mr. Akin is the next witness.

**STATEMENT OF PAUL B. AKIN, PRESIDENT, LACLEDE STEEL CO., ST. LOUIS, MO.**

Mr. AKIN. Mr. Chairman, my name is Paul B. Akin. I am the president and treasurer of the Laclede Steel Co.

Laclede is a midwestern steel producer with steelmaking facilities in Alton, Ill., and general offices in St. Louis, Mo. Laclede has approximately 3,500 employees. Net sales for the past 2 years have been over \$100 million, and we are listed as No. 682 in last year's Fortune magazine's list of U.S. corporations. In 1972 we produced 750,000 tons of raw steel or about one-half of 1 percent of the raw steel that was made in the United States.

I want to thank you for giving me an opportunity today to express my thoughts about the Export Administration Act and about the proposed amendment to it. I recognize that you are in your third day of hearings on this subject, so I will make my presentation brief and very direct.

Today I will state initially what I think Congress is trying to accomplish with the act, and with the amendment. I will then attempt to show why the intent of Congress is not being executed and what I think must be changed before the legislation will be effective.

**ASSUMPTIONS**

1. It is my opinion that Congress recognizes the following:

(a) That some industries do not own, but must purchase the market, the raw materials that they process;

(b) That a shortage of such raw materials can economically damage such a processing industry;

(c) That exports of these raw materials can aggravate a shortage; and, also

(d) That the export of raw materials helps this Nation's international balance of payments.

2. It is my opinion that Congress passed the Export Administration Act and is considering the present amendment to accomplish one objective. The objective is: If a domestic raw material shortage develops, exports of that raw material are to be curtailed to the extent necessary and possible to eliminate the domestic shortage. If the above assumptions are correct, is the intent of Congress being fulfilled?

In my opinion, if we consider the raw material ferrous scrap, the intent of Congress was not fulfilled when we had a shortage in 1970 and it is not being fulfilled in the shortage that is occurring now.

I believe that the primary cause of this failure is that the act does not define its terms. Some problem areas are:

What is "inflationary" and what is "a serious inflationary impact"?

What constitutes proof that a shortage exists?

What is "abnormal foreign demand"?

And most important of all, what combination of events must be established before export controls can be instituted?

To understand more fully what I am referring to by this criticism, let me describe the frustrations many of us experienced in 1970 when we tried to get the Department of Commerce to impose ferrous scrap export controls.

By way of background, Laclede had incurred losses from its operation in 1968 and 1969. The loss in 1969 was just over \$3 million. By early February of 1970 scrap prices had jumped 46 percent over the 10-year average, or 64 percent over the price of a year earlier. It was apparent that if these prices held Laclede would have to earn an additional \$7 million in 1970 if it was to have a loss for the year no greater than the \$3 million loss of 1969.

In 1955, 1956, and 1957, the last time scrap prices had reached these levels, the price of steel products increased more than enough to offset scrap prices, and Laclede had three of the most profitable years in its history.

In 1962, however, President Kennedy imposed an informal but firm price restraint on the steel industry. Subsequently, President Johnson did the same. Early in 1970 it was obvious that the big steel companies were in no position to justify much in the way of price increases. The amount of scrap purchased by most of the large integrated steel companies is a relatively small percentage of their total raw material mix. Therefore, the scrap price increase did not have as drastic an economic impact on the big companies as it did on the small "cold metal" shops that rely entirely on scrap for raw material. If the small companies tried to pass through the cost increase, they would lose their customers.

Obviously, the Export Administration Act appeared to be the exact piece of legislation needed to correct the domestic scrap shortage problem. Hence, on February 10, 1970, a group of steel company presidents met and decided to try to have ferrous scrap exports curtailed. On February 19, 1970, representatives from 27 steel companies, a representative from the United Steelworkers of America, and one from the

American Iron and Steel Institute met with representatives of the Department of Commerce and made the request that ferrous scrap exports be curtailed. The steel company representatives were thanked for bringing the matter to the attention of the Department, and we were assured that they would study the situation.

In the months that followed, we had numerous meetings with the Department of Commerce. I also met with the Deputy Under Secretary of State for Economic Affairs, at the State Department, and, later, with Dr. Hendrik S. Houthakker of the Council of Economic Advisers.

In meeting after meeting, the steel companies, large and small, and the foundries argued and urged that the act be used to grant relief.

On August 20, 1970, I was one of four steel company presidents that met with the Secretary of Commerce. We informed him of the ferrous scrap shortage and requested that he impose ferrous scrap export controls. He thanked us very much for bringing the matter to his attention and advised us that he would study the matter.

In retrospect, I have wondered why we were unable to convince the Department of Commerce to use the act. The price of scrap reached levels that had not been attained since 1957. In the first half of the year, scrap prices averaged 56 percent above the prices of a year earlier. Many of us felt that certainly this was *prima facie* evidence that a scrap shortage existed.

We recognized that the "abnormal foreign demand" was difficult to establish early in the year; but, before many months passed, we saw month after month of very heavy exports.

In view of the prices mentioned above, we thought that "inflationary impact" had been clearly illustrated. Our present national goal is to contain inflation to a 3-percent level.

In phase 2, labor increases could not exceed 5.5 percent. We learned in 1970, however, that those in the Department of Commerce had a different concept of the Export Administration Act and when it should be applied. We learned that if ferrous scrap prices jump 28 percent above the 10-year average—1961–70—as they did in January of 1970 and to a level of 46 percent above the 10-year average as they did in February of 1970, this is inflationary and warrants study. When the price dropped slightly as it did in March of 1970 to 41 percent above the 10-year average, it is apparently no longer inflationary. We were told then, just as we have been advised now, that "We are merely experiencing a temporary imbalance. The price has peaked. The supply is now catching up to demand. The situation has stabilized, and it would be inappropriate to institute ferrous scrap export controls at this time." As mentioned above, the "stabilized" price was stabilized 40 percent above the 10-year average.

In September of 1970, Laclede borrowed an additional \$3 million to meet expenses. Later in the year we renegotiated the terms of our long-term note agreement, and our percent of debt to invested capital reached 54.8 percent. In 1971 and 1972 Laclede had modest earnings, and late in 1972 we made our first major payment on our long-term debt. In December of 1972 and in January of 1973, the price of scrap again increased rapidly to levels even higher than in 1970. The Department of Commerce indicated that they were considering export

curtainments. In February the price of scrap dropped slightly, and Commerce backed off at once to study the situation.

#### CONCLUSION

There is no doubt in my mind that the United States has an urgent need for an act such as the Export Administration Act. I am delighted that you are making an effort to improve it, as it has proven of little value in its present form to the steel industry and to the foundries. The amendment you propose helps clarify the intent of the bill, and the forecast indices will undoubtedly help many commodities. The second part of page 2 describing technical advisory committees will probably also be of great help to many commodities.

As mentioned in my account of 1970, however, we had no difficulty in arranging meetings and studies. We had no trouble obtaining indices as they appeared regularly in the trade journals. We just could not get, in 1970 nor can we now get, a decision to use the act.

Thank you, again, for letting me express my opinion to you today as, you can see, Laclede's domestic welfare has been affected.

Mr. REES. Thank you very much, Mr. Akin.

Mr. AKIN. Mr. Chairman, yesterday afternoon I had an opportunity to talk with Mrs. Sullivan and with Mr. Johnson. They had a couple of points they wanted me to bring up. Would you like those now or later?

Mr. REES. I suspect that now would be the best time.

Mr. AKIN. You have before you a document entitled, "Supplementary Data to Support a Request for Controls on the Export of Steel Scrap." Mrs. Sullivan was very interested in the graph on page 1. This overall graph shows the U.S. international trade record. That is all items that are exported and imported. Steel is among those, but it includes everything that goes out and comes into the country. I have plotted to the same scale a line that you can see running across the lower part. That line indicates the impact of the domestic steel industry upon the balance of payments we just mentioned. I think you will notice that steel has been a bit of a drag. As a matter of fact, in 1971, steel alone was more than the entire national trade deficit. This is a sizable anvil, you might say, around the neck of the country.

The point I was bringing up concerns 1972, when we had a \$2.3 billion steel deficit. By damaging the small cold metal shops as much as they are being hit by the present scrap shortage, invites a greater steel deficit. They got hurt in 1970; we are getting hurt again in 1973 much more and that line is going to drop very sharply beyond where it is right here.

She was anxious that I bring that up, as well as the comparison of the pages 8 and 9. You will notice that the graph on page 9 is the one we just looked at. On page 8, from 1955 to 1972, you can see up on the top a dash-dot line indicating, as it states, "U.S. Apparent Steel Consumption," that is, the amount of steel that is used in the United States in each one of those years, 100 percent of the steel that was used.

Now, then, right next to that line are the shipments of steel that the domestic steel industry made. You will notice that 1958 was the

last year the domestic industry met the needs of the Nation—they came near, they touched it in 1960, but from 1960 on we have not shipped enough steel to meet the needs of the Nation. This is in tons, the top graph.

I think it is worthwhile to make a comparison of the shape of that line to the line in dollars on international balance of payments. They are practically identical.

The last one that Mrs. Sullivan wanted me to bring to your attention is the comparison on pages 14 and 15. Looking at the graph on page 14. At the top I have plotted, you might say Wall Street Journal style, the prices of scrap in each one of the years from 1953 to 1972. The little blip on the line indicates how the year closed. The line that runs through those prices connotes the average price for each year.

On the lower graph, the very bottom line, shows the amount of scrap exports that we had each year during that period. The dash line or the next one up is the amount of scrap purchased by the steel companies, and the top line is the total of the two.

On page 15, I speak about the criteria, the question being: How many times would the Export Administration Act be used in the last 20 years—how many times it would have been justified, even if it was on the books, and I do not think it was in 1955 and 1956? But if we used the criteria of abnormal exports, certainly in 1955, 1956, and 1957, we were getting into an area of abnormal exports. The domestic demand was particularly high, and the price, as you can see up above, had jumped. So, we had all three criteria.

The next time we had abnormal exports was in 1961. You can see quite a blip there. The steel industry, however, did not push, and if you will look at the price up above there was no sizable price increase. All three criteria were not met in 1961, although we had a record year of exports. We have no objection to the exports. It is just when it causes a shortage that it kills us.

Then, when we get over to here, to 1970, that is the other time. You can see the high exports, you can see the domestic demand was high and you can see those prices went up. They did not go as high as they did in 1955 and 1956, but they had quite an impact on the domestic economy as mentioned earlier.

That was all that Mrs. Sullivan wanted to have brought to your attention.

Mr. Johnson stated "Well, look, we are going to be devaluating soon. Is that not going to help you?"

I said:

Quite to the contrary; that is going to ruin us, because it will mean that scrap to the foreigners is so much less expensive and if the Department of Commerce continues not to use the act they might as well ship our furnaces out, too, because we are not going to be able to operate.

That concludes the points they wanted brought up.

Mr. REES. Fine. I am glad they brought these points up with you. [The document, "Supplementary Data To Support A Request For Controls On The Export of Steel Scrap," referred to by Mr. Akin in his statement follows:]



Supplementary Data To Support  
A Request For Controls On The  
Export of Steel Scrap

by  
Paul B. Akin, President and Treasurer  
Laclede Steel Company  
St. Louis, Missouri

March 23, 1973

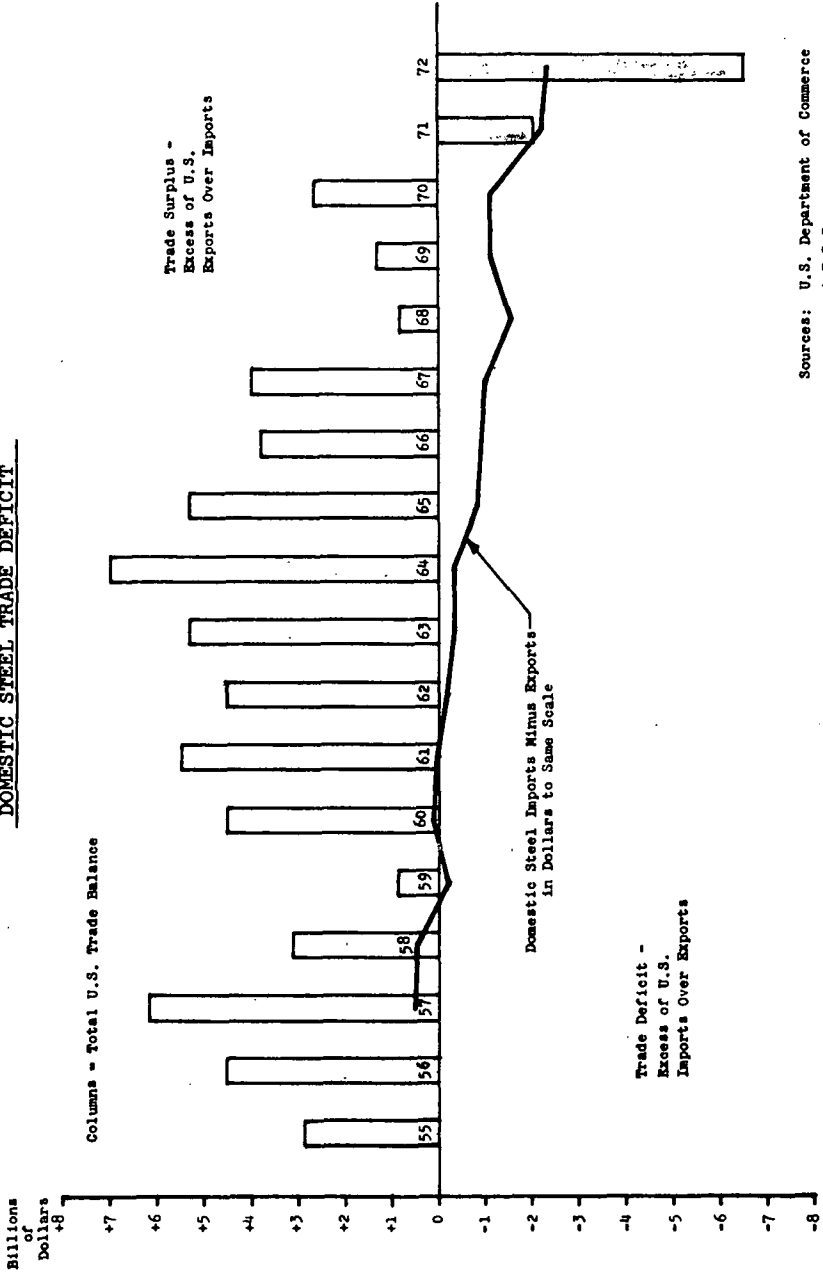
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U.S. INTERNATIONAL TRADE RECORD  
AND  
DOMESTIC STEEL TRADE DEFICIT



Sources: U.S. Department of Commerce  
A.I.S.I.

U. S. INTERNATIONAL TRADE RECORD  
AND  
DOMESTIC STEEL TRADE DEFICIT

	(1) Trade Surplus or (Deficit) Millions of Dollars		(2) Domestic Steel Exports (Minus) Imports Millions of Dollars	
	Exports	(Imports)	Exports	(Imports)
1955	14,290.5	11,490.7	N/A	N/A
1956	17,332.5	12,773.7	N/A	N/A
1957	19,495.0	13,254.7	717	544
1958	16,367.3	13,255.3	544	352
1959	16,394.7	15,627.2	352	(163)
1960	19,608.7	15,017.5	585	136
1961	20,152.2	14,713.0	379	(3)
1962	20,944.9	16,389.1	302	(182)
1963	22,424.9	17,141.6	291	(342)
1964	25,620.2	18,684.6	425	(324)
1965	26,699.5	21,365.6	357	(820)
1966	29,379.2	25,542.2	330	(878)
1967	30,934.4	26,812.3	301	(991)
1968	34,062.8	33,226.3	337	(1,639)
1969	37,331.7	36,042.8	679	(1,063)
1970	42,659.3	39,963.2	893	(1,074)
1971	N/A	N/A	447	*(2,189)
1972	N/A	N/A	474	*(2,320)

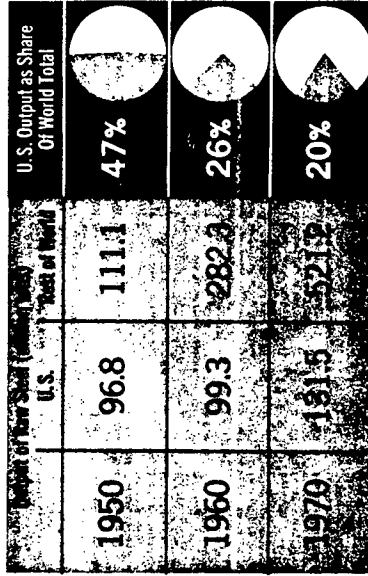
Source: (1) Department of Commerce  
(2) A.I.S.I.

\*Aid Financed Exports are Estimated

\*\*U. S. News and World Report - Feb. 26, 1973

U. S. OUTPUT AS SHARE OF WORLD TOTAL

ONCE, U.S. PRODUCED NEARLY HALF THE WORLD'S STEEL, BUT NOW -



In two decades, U.S. production has increased by little more than one third—while rest of world has nearly quintupled output. Today, this country is turning out no more steel than it did five years ago. Meanwhile, mills in other countries are producing ingots at an accelerating pace.

Source: American Iron and Steel Institute

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U. S. NEWS & WORLD REPORT, October 4, 1971

To provide for continuation of authority for regulation of exports.

*Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,*

## SHORT TITLE

SECTION 1. This Act may be cited as the "Export Administration Act of 1969".

## FINDINGS

SEC. 2. The Congress makes the following findings:

- (1) The availability of certain materials at home and abroad varies so that the quantity and composition of United States exports and their distribution among importing countries may affect the welfare of the domestic economy and may have an important bearing upon fulfillment of the foreign policy of the United States.
- (2) The unrestricted export of materials, information, and technology without regard to whether they make a significant contribution to the military potential of any other nation or nations may adversely affect the national security of the United States.
- (3) The unwarranted restriction of exports from the United States has a serious adverse effect on our balance of payments.
- (4) The uncertainty of policy toward certain categories of exports has curtailed the efforts of American business in those categories to the detriment of the overall attempt to improve the trade balance of the United States.

## DECLARATION OF POLICY

SEC. 3. The Congress makes the following declarations:

- (1) It is the policy of the United States both (A) to encourage trade with all countries with which we have diplomatic or trading relations, except those countries with which such trade has been determined by the President to be against the national interest, and (B) to restrict the export of goods and technology which would make a significant contribution to the military potential of any other nation or nations which would prove detrimental to the national security of the United States.
- (2) It is the policy of the United States to use export controls (A) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand, (B) to the extent necessary to further significantly the foreign policy of the United States and to fulfill its international responsibilities, and (C) to the extent necessary to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.
- (3) It is the policy of the United States (A) to formulate, reformulate, and apply any necessary controls to the maximum extent possible in cooperation with all nations with which the United States has defense treaty commitments, and (B) to formulate a unified trade control policy to be observed by all such nations.

December 30, 1969  
H. R. 4793

Export Admin-  
istration Act of  
1969.

Restrictive  
trade practices  
of boycotts.

Export controls.

(4) It is the policy of the United States to use its economic resources and trade potential to further the sound growth and stability of its economy as well as to further its national security and foreign policy objectives.

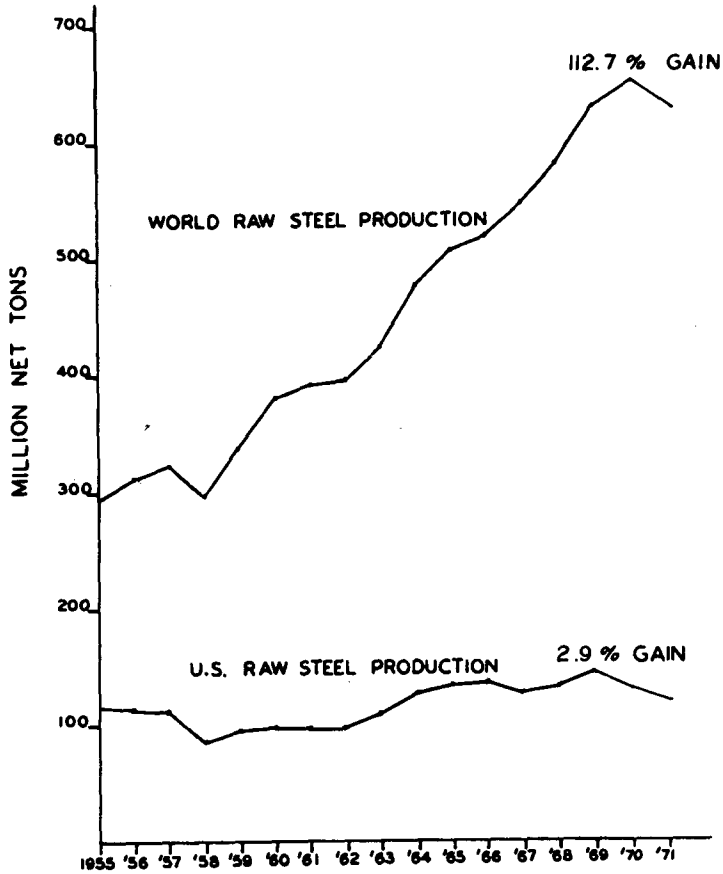
(3) It is the policy of the United States: (A) to oppose restrictive trade practices or boycotts fostered or imposed by foreign countries against other countries friendly to the United States; and (B) to encourage and request domestic concerns engaged in the export of articles, materials, supplies, or information, to refuse to take any action, including the furnishing of information or the signing of agreements, which has the effect of furthering or supporting the restrictive trade practices or boycotts fostered or imposed by any foreign country against another country friendly to the United States.

## AUTHORITY

SEC. 4. (a) (1) The Secretary of Commerce shall institute such organizational and procedural changes in any office or division of the Department of Commerce which has heretofore exercised functions relating to the control of exports and continues to exercise such controls under this Act as he determines are necessary to facilitate and effectuate the fullest implementation of the policy set forth in this Act with a view to promoting trade with all nations with which the United States is engaged in trade, including trade with: (A) those countries or groups of countries with which other countries or groups of countries are giving the treaty commitments with the United States; and (B) those countries or groups of countries which are giving the treaty commitments with the United States but not significantly engaged in trade with the United States. In addition, the Secretary shall give any list of articles, materials, or supplies, including technical data or other information, the exportation of which from the United States, its territories and possessions, was heretofore prohibited or curtailed with a view to making promptly such changes and revisions in such list as may be necessary or desirable in furtherance of the policy, purposes, and provisions of this Act. The Secretary shall include a detailed statement with respect to actions taken in compliance with the provisions of this paragraph in the second quarterly report (and in any subsequent report with respect to actions taken during the preceding quarter) made by him to the Congress after the date of enactment of this Act pursuant to section 10.

(2) The Secretary of Commerce shall use all practicable means available to him to keep the business sector of the Nation fully apprised of changes in export control policy and procedures instituted in conformity with this Act with a view to encouraging the widest possible trade.

## U.S. vs. WORLD RAW STEEL PRODUCTION IN NET TONS



SOURCE A.I.S.I.



U.S. VS. WORLD RAW STEEL PRODUCTION  
(In Millions of Net Tons)

	<u>World Steel Production</u>	<u>U.S. Raw Steel Production</u>
1955	297.2	117.0
1956	310.8	115.2
1957	320.6	112.7
1958	298.9	85.3
1959	337.2	93.4
1960	381.6	99.3
1961	390.1	98.0
1962	394.1	98.3
1963	422.2	109.3
1964	479.0	127.1
1965	503.1	131.5
1966	519.1	134.1
1967	547.6	127.2
1968	582.5	131.5
1969	632.0	141.3
1970	654.2	131.5
1971	632.6	120.4

Source: A.I.S.I.

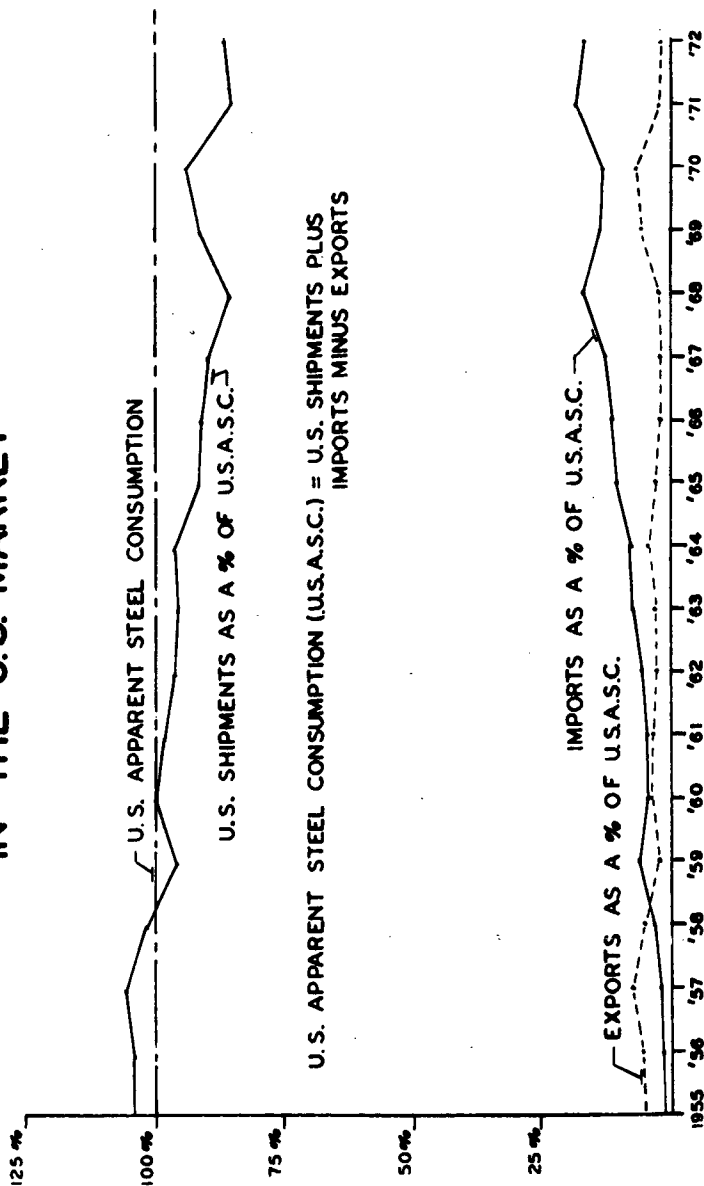
**THE DECLINE OF DOMESTIC STEEL  
IN THE U.S. MARKET**

	U.S. Apparent Steel Consumption Tons	U.S. Shipments		Exports		Imports	
		Tons	Percent of Col(1)	Tons	Percent of Col(1)	Tons	Percent of Col(1)
1955	81,630	84,717	103.8	4,060	5.0	973	1.2
1956	80,244	83,251	103.7	4,348	5.4	1,341	1.7
1957	75,702	79,895	105.5	5,348	7.1	1,155	1.5
1958	58,798	59,914	101.9	2,823	4.8	1,707	2.9
1959	72,096	69,377	96.2	1,677	2.3	4,396	6.1
1960	71,531	71,149	99.5	2,977	4.2	3,359	4.7
1961	67,299	66,126	98.3	1,990	3.0	3,163	4.7
1962	72,639	70,552	97.1	2,013	2.8	4,100	5.6
1963	78,777	75,555	95.9	2,224	2.8	5,446	6.9
1964	87,943	84,945	96.6	3,442	3.9	6,440	7.3
1965	100,553	92,666	92.2	2,496	2.5	10,383	10.3
1966	99,024	89,995	90.9	1,724	1.7	10,753	10.9
1967	93,667	83,897	89.6	1,685	1.8	11,455	12.2
1968	107,646	91,856	85.3	2,170	2.0	17,960	16.7
1969	102,682	93,877	91.4	5,229	5.1	14,034	13.7
1970	97,109	90,798	93.5	7,053	7.3	13,364	13.8
1971	102,515	87,038	84.9	2,827	2.8	18,304	17.9
1972	106,613	91,805	86.1	2,873	2.7	17,681	16.6

Source: A.I.S.I.

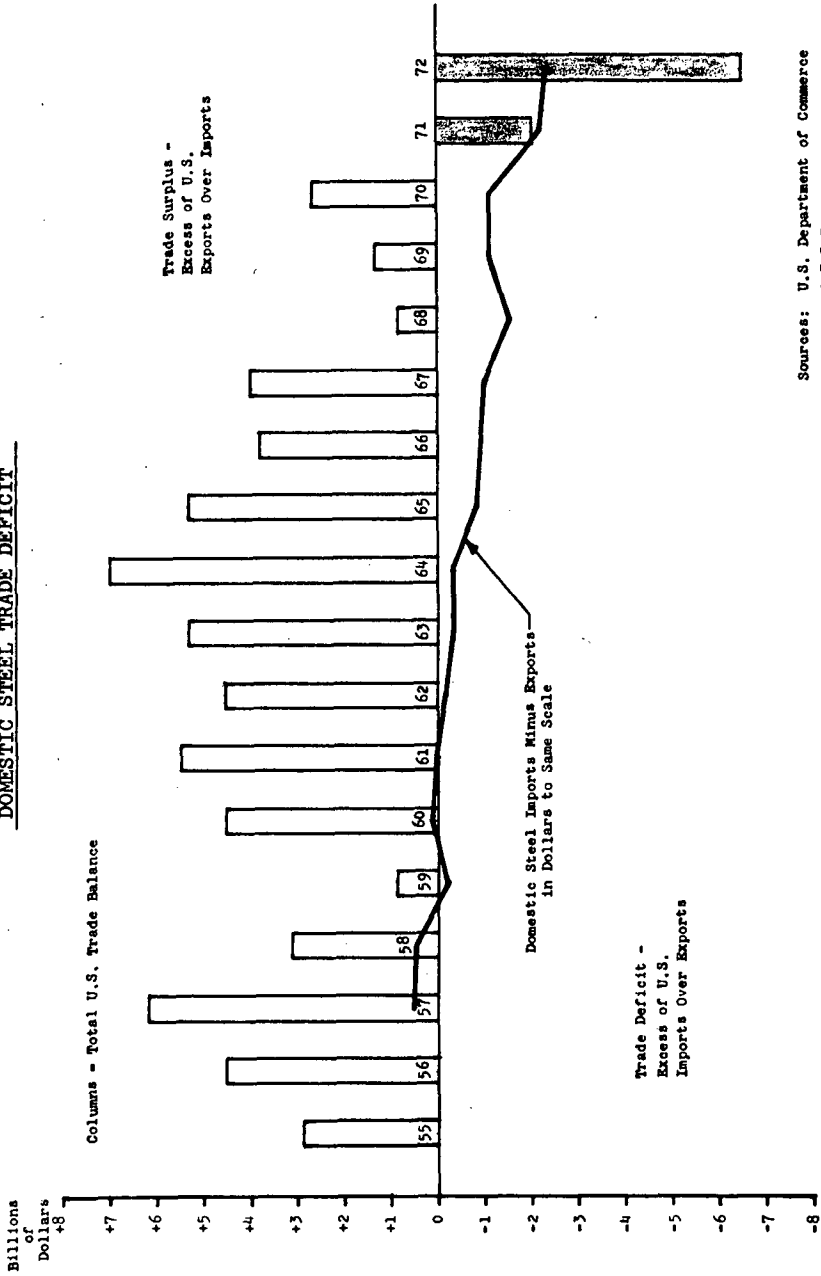
(Refer to graph on next page)

# THE DECLINE OF DOMESTIC STEEL IN THE U.S. MARKET



SOURCE A.I.S.I.

**U.S. INTERNATIONAL TRADE RECORD  
AND  
DOMESTIC STEEL TRADE DEFICIT**



Sources: U.S. Department of Commerce  
A.I.S.I.

MANUFACTURING COMPANIES'  
NET WORTH AND PERCENT OF RETURN ON NET WORTH 1971

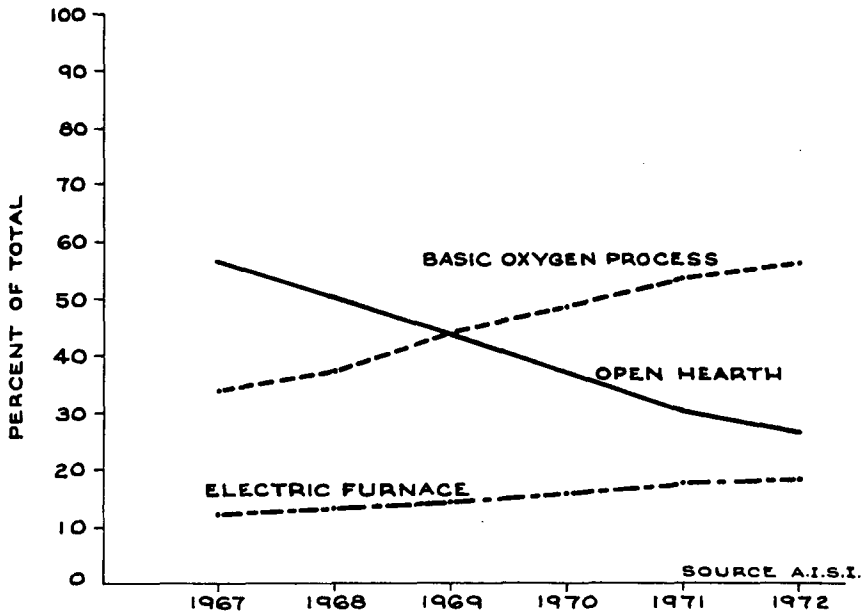
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(Dollar figures in millions)

<u>No. of cos.</u>	<u>Industrial Groups</u>	<u>Net worth beginning of 1971</u>	<u>% Return on Net Worth 1971</u>
19	Soft Drinks	1,257.0	22.9
41	Drugs and medicines	6,450.1	19.1
34	Soap and cosmetics	2,920.3	18.7
11	Tobacco products	3,001.6	16.9
11	Brewing	902.9	16.2
148	Instruments, photo. goods, etc.	8,288.5	15.8
10	Autos and trucks	17,974.4	15.0
62	Office equipment, computers	9,746.3	13.3
13	Dairy products	2,434.0	12.6
81	Other food products	6,813.3	12.5
15	Baking	688.7	12.4
35	Hardware and tools	1,281.6	12.3
96	Printing and publishing	3,396.8	11.8
14	Household appliances	2,289.3	11.6
96	Petroleum prod. and refining	57,079.3	11.2
11	Glass products	2,285.3	11.1
25	Lumber and wood products	2,944.3	10.9
28	Shoes, leather, etc.	1,034.7	10.8
37	Furniture and fixtures	582.8	10.6
13	Sugar	716.9	10.4
97	Clothing and apparel	2,049.8	10.4
331	Electrical equip. & electronics	19,574.1	10.4
48	Automotive parts	2,809.2	10.4
11	Distilling	1,885.5	9.9
76	Chemical products	15,958.8	9.9
59	Rubber and allied products	4,818.7	9.8
170	Other machinery	7,415.8	9.7
7	Railway equipment	809.0	9.2
47	Aerospace	6,822.5	9.1
52	Building, heat., plumb. equip.	1,878.2	8.9
69	Other metal products	2,723.3	8.9
114	Misc. manufacturing	2,614.0	8.9
41	Other stone and clay products	2,836.6	8.8
44	Farm, constr., mat.-hdlg. equip.	4,804.5	8.8
35	Meatpacking	1,495.5	8.1
18	Cement	1,218.8	7.8
27	Paint and allied products	1,108.0	7.3
86	Textile products	4,066.4	6.2
62	Paper and allied products	8,127.5	5.6
56	Nonferrous metals	9,898.5	5.2
65	Iron and steel	13,581.1	4.5
2,319	Total manufacturing	248,583.7	10.8

Source: Monthly Economic Letter of the First National  
City Bank, New York, New York, April, 1972

# RAW STEEL PRODUCTION BY TYPE OF FURNACE



## RAW STEEL PRODUCTION BY TYPE OF FURNACE

	OPEN HEARTH		B. O. F.		ELECTRIC		TOTAL
	TONS	%	TONS	%	TONS	%	
1967	70,690	55	41,434	33	15,089	12	127,213
1968	65,836	50	48,812	37	16,814	13	131,462
1969	60,894	43	60,236	43	20,132	14	141,262
1970	48,022	37	63,330	48	20,162	15	131,514
1971	35,559	30	63,943	53	20,941	17	120,443
1972	34,974	26	74,584	56	23,544	18	133,102

Source: A.I.S.I.

SCRAP CONSUMPTION AS A PERCENTAGE OF TOTAL PRODUCTION  
BY FURNACE TYPE

	<u>Open Hearth</u>	<u>Basic Oxygen</u>	<u>Electric</u>
<u>1966</u>			
Total Production (Tons)	85,025	33,928	14,870
Scrap Consumption (Tons)	38,535	11,387	13,523
Scrap as a % of Prod.	45.3%	33.5%	90.9%
<u>1967</u>			
Total Production (Tons)	70,690	41,434	15,089
Scrap Consumption (Tons)	32,298	13,955	13,351
Scrap as a % of Prod.	45.6%	33.6%	88.4%
<u>1968</u>			
Total Production (Tons)	65,836	48,812	16,814
Scrap Consumption (Tons)	31,127	16,112	16,342
Scrap as a % of Prod.	47.2%	33.0%	97.1%
<u>1969</u>			
Total Production (Tons)	60,894	60,236	20,132
Scrap Consumption (Tons)	30,252	19,828	19,575
Scrap as a % of Prod.	49.6%	32.9%	97.2%
<u>1970</u>			
Total Production (Tons)	48,022	63,330	20,162
Scrap Consumption (Tons)	21,935	20,124	18,834
Scrap as a % of Prod.	45.6%	31.7%	93.4%
<u>1971</u>			
Total Production (Tons)	35,559	63,943	20,941
Scrap Consumption (Tons)	18,572	20,058	20,150
Scrap as a % of Prod.	52.2%	31.3%	96.2%

Source: A.I.S.I.

STEEL INDUSTRY SCRAP PURCHASES, SCRAP EXPORTS AND SCRAP PRICES

	Scrap Purchases		Scrap Exports		Total		Average Scrap Prices
	Tons		Tons		Col(1) & Col(2)		
1953	24,703		317		25,020	39.52	
1954	18,711		1,606		20,317	28.50	
1955	26,367		4,992		31,359	40.19	
1956	27,500		6,279		33,779	53.01	
1957	22,632		6,864		29,496	46.75	
1958	16,360		2,937		19,297	38.00	
1959	19,925		4,849		24,774	40.49	
1960	18,173		7,190		25,363	32.95	
1961	17,890		9,716		27,606	36.28	
1962	16,801		5,113		21,914	28.23	
1963	20,634		6,364		26,998	27.11	
1964	21,273		7,899		29,172	33.67	
1965	23,107		6,170		29,277	34.35	
1966	24,038		5,858		29,896	30.87	
1967	21,300		7,635		28,935	27.62	
1968	23,514		6,572		30,086	25.85	
1969	25,985		9,176		35,161	30.83	
1970	24,012		10,365		34,377	41.08	
1971	21,824		6,256		28,080	34.09	
1972	26,006		7,475		33,481	36.86	

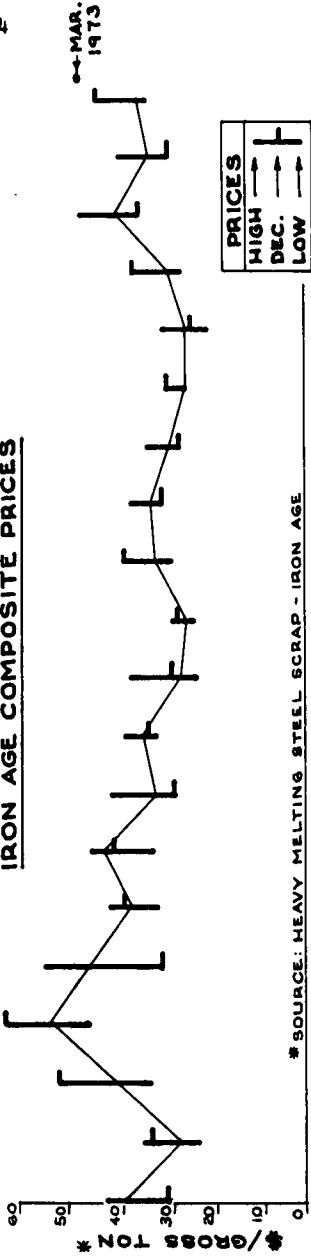
Source: Heavy Melting Steel Scrap - Iron Age  
A.I.S.I.

(Refer to graph on next page)

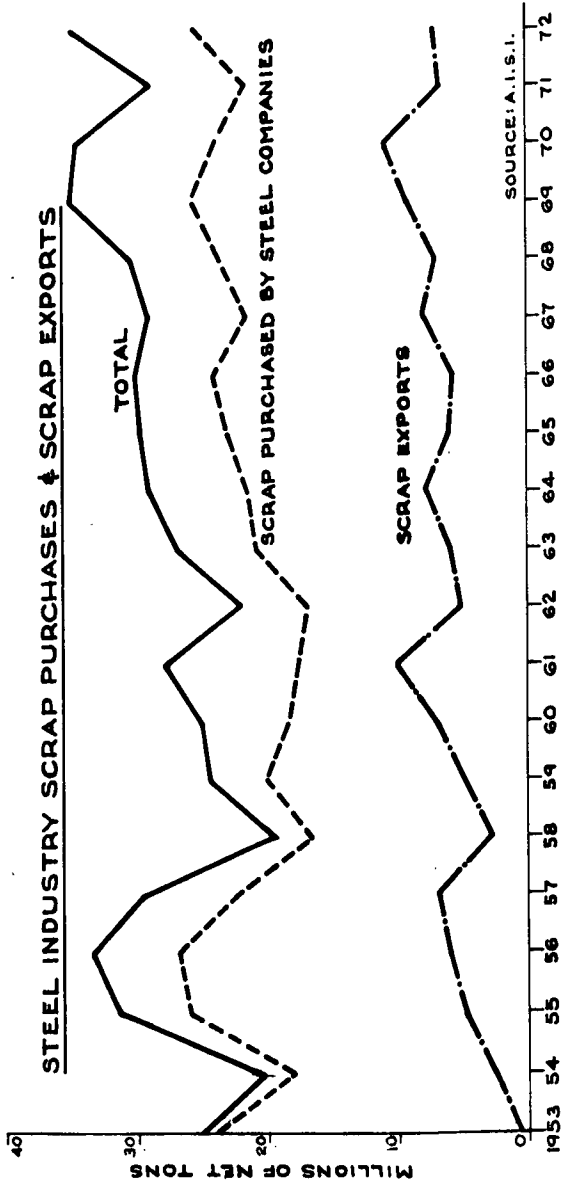


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# IRON AGE COMPOSITE PRICES



## STEEL INDUSTRY SCRAP PURCHASES & SCRAP EXPORTS



### THE CRITERIA

In the Export Administration Act of 1972 the export of a critical raw material may be curtailed if and only if three conditions are met. A review of the three conditions and of the years in which these conditions occurred are tabularized below.

Year	Exports Heavier Than Normal?	Inflationary? (% Increase in Price in 12 Months*)	Shortage? (As Measured By Sharp Price Increases)	All Criteria Met
1955}	Yes	59.6% <sup>1</sup>	Yes	Yes
1956}				
1957}				
1961	Yes	39.1% <sup>2</sup>	No	No
1969}	Yes	64.9% <sup>3</sup>	Yes	Yes
1970}				
1973	Yes	50.6% <sup>4</sup>	Yes	Yes

<sup>1</sup> December, 1954 vs. December 1955

<sup>2</sup> September, 1961 vs. November, 1960 - Although the market responded to the exports, a real shortage did not occur.

<sup>3</sup> February, 1969 vs. February 1970

<sup>4</sup> January, 1972 vs. January 1973

\*Source: Heavy Melting Steel Scrap - Composite Price - Iron Age

Steel Mills Dependent on Steel Scrap  
which Produce Mainly Carbon Steel Products

- |  |  |
|--|--|
| 1. AMERICAN COMPRESSED STEEL CORPORATION<br>Cincinnati, Ohio             | 16. CECO STEEL COMPANY<br>Milton, Pennsylvania                         |
| 2. AMERON STEEL PRODUCING<br>Etiwanda, California                        | 17. C. F. & I. STEEL CORP.<br>Roebling, New Jersey                     |
| 3. ARMCO STEEL CORPORATION<br>Butler, Pennsylvania                       | 18. CONTINENTAL STEEL CORP.<br>Kokomo, Indiana                         |
| 4. ARMCO STEEL CORPORATION<br>Kansas City, Missouri                      | 19. CYCLOPS CORPORATION<br>EMPIRE-REEVES STEEL DIV.<br>Mansfield, Ohio |
| 5. ARMCO STEEL CORPORATION<br>Sand Springs, Oklahoma                     | 20. EDGEWATER CORPORATION<br>Oakmont, Pennsylvania                     |
| 6. ATLANTIC STEEL COMPANY<br>Atlanta, Georgia                            | 21. FLORIDA STEEL CORPORATION<br>Indiantown, Florida                   |
| 7. BALDWIN-LIMA-HAMILTON<br>STANDARD STEEL DIV.<br>Burnham, Pennsylvania | 22. FLORIDA STEEL CORPORATION<br>Tampa, Florida                        |
| 8. BETHLEHEM STEEL CORP.<br>Steelton, Pennsylvania                       | 23. FLORIDA STEEL CORPORATION<br>Charlotte, North Carolina             |
| 9. BETHLEHEM STEEL CORP.<br>Los Angeles, California                      | 24. GEORGETOWN STEEL CORPORATION<br>Georgetown, South Carolina         |
| 10. BETHLEHEM STEEL CORP.<br>Seattle, Washington                         | 25. HAWAIIAN WESTERN STEEL, LTD.<br>Ewa Beach, Hawaii                  |
| 11. BORDER STEEL ROLLING MILLS, INC.<br>El Paso, Texas                   | 26. INTERCOASTAL STEEL CORP.<br>Norfolk, Virginia                      |
| 12. BORG-WARNER CORPORATION<br>CALUMET STEEL<br>Chicago Hts., Illinois   | 27. INTERLAKE, INC.<br>Wilder, Kentucky                                |
| 13. CASCADE STEEL ROLLING MILLS<br>Portland, Oregon                      | 28. JERSEY SHORE STEEL COMPANY<br>Jersey Shore, Pennsylvania           |
| 14. CECO STEEL COMPANY<br>Birmingham, Alabama                            | 29. JESSOP STEEL COMPANY<br>Owensboro, Kentucky                        |
| 15. CECO STEEL COMPANY<br>Lemont, Illinois                               | 30. JESSOP STEEL COMPANY<br>Washington, Pennsylvania                   |
|  | 31. JUDSON STEEL CORPORATION<br>Emeryville, California                 |

- |  |  |
|--|--|
| 32. KANKAKEE ELECTRIC STEEL CO.<br>Kankakee, Illinois  | 44. OWEN ELECTRIC STEEL CO.<br>Columbia, South Carolina                      |
| 33. KENTUCKY ELECTRIC STEEL CO.<br>Ashland, Kentucky   | 45. PACIFIC STATES STEEL CORP.<br>Union City, California                     |
| 34. KEYSTONE STEEL & WIRE DIV. OF<br>KEYSTONE CONSOLIDATED INDUSTRIES,<br>INC.<br>Peoria, Illinois | 46. PHOENIX STEEL CORPORATION<br>Claymont, Delaware                          |
| 35. LACLEDE STEEL COMPANY<br>St. Louis, Missouri   | 47. H. K. PORTER<br>CONNORS STEEL DIVISION<br>Birmingham, Alabama            |
| 36. LUKENS STEEL COMPANY<br>Coatesville, Pennsylvania  | 48. H. K. PORTER CO., INC.<br>Huntington, West Virginia                      |
| 37. MARATHON STEEL MFG. CO.<br>Phoenix, Arizona  | 49. ROANOKE ELECTRIC STEEL CORP.<br>Roanoke, Virginia                        |
| 38. MISSISSIPPI STEEL DIV. OF<br>MAGNA CORP.<br>Jackson, Mississippi                               | 50. ROBLIN STEEL CORPORATION<br>North Tonawanda, New York                    |
| 39. NORTH STAR STEEL COMPANY<br>St. Paul, Minnesota  | 51. SCHINDLER STEEL COMPANY<br>Sealy, Texas                                  |
| 40. NORTHWEST STEEL ROLLING MILLS<br>INC.<br>Seattle, Washington                                   | 52. SOULE STEEL COMPANY<br>Long Beach, California                            |
| 41. NORTHWESTERN STEEL & WIRE CO.<br>Sterling, Illinois  | 53. SOUTHWEST STEEL ROLLING<br>MILLS, INC.<br>Los Angeles, California        |
| 42. EASTERN CAROLINA (NUCLEAR CORP.)<br>Darlington, South Carolina                                 | 54. STEEL SERVICE COMPANY<br>KNOXVILLE IRON DIVISION<br>Knoxville, Tennessee |
| 43. OREGON STEEL MILLS<br>Portland, Oregon   | 55. STRUCTURAL METALS, INC.<br>Seguin, Texas                                 |

56. TENNESSEE FORGING STEEL  
CORP.  
Harriman, Tennessee
57. TEXAS STEEL COMPANY  
Ft. Worth, Texas
58. UNITED STATES STEEL CORP.  
Torrance, California
59. WASHBURN WIRE COMPANY  
Phillipsdale, Rhode Island
60. WITTEMAN STEEL MILLS  
Fontana, California

IMPACT OF \$10/TON SCRAP PRICE INCREASE ON 1971 NET INCOME

COMPANY	TONS SHIPPED	\$000	
		COST OF \$10/TON SCRAP INCREASE	NET INCOME
ATLANTIC STEEL CO.	322,468	\$ 3,225	\$ 1,529
CONTINENTAL STEEL CORP.	401,122	4,011	1,399
KEYSTONE CONSOLIDATED IND. INC.	367,000*	3,670	( 752)
LACLEDE STEEL CO.	616,395	6,164	3,410
LUKENS STEEL CO.	618,000*	6,180	3,553
NORTHWESTERN STEEL & WIRE CO.	989,387	9,894	17,453
TOTAL	3,314,372	\$33,144	\$26,592

Source: Iron Age 1971 Steel  
Financial Analysis

\*Estimates

THE WALL STREET JOURNAL, Wednesday, February 28, 1973

### A Capacity Gap?

## Heavy Steel Output Signals Industry Boom But May Also Lead to Shortages in Future

By MICHAEL K. DRAPKIN  
Staff Reporter of THE WALL STREET JOURNAL

PITTSBURGH—The President's Council of Economic Advisers announced last month that "the principal question on the economic outlook of 1973 isn't whether, but how fast, output and employment will expand." And that made steel-company executives cringe.

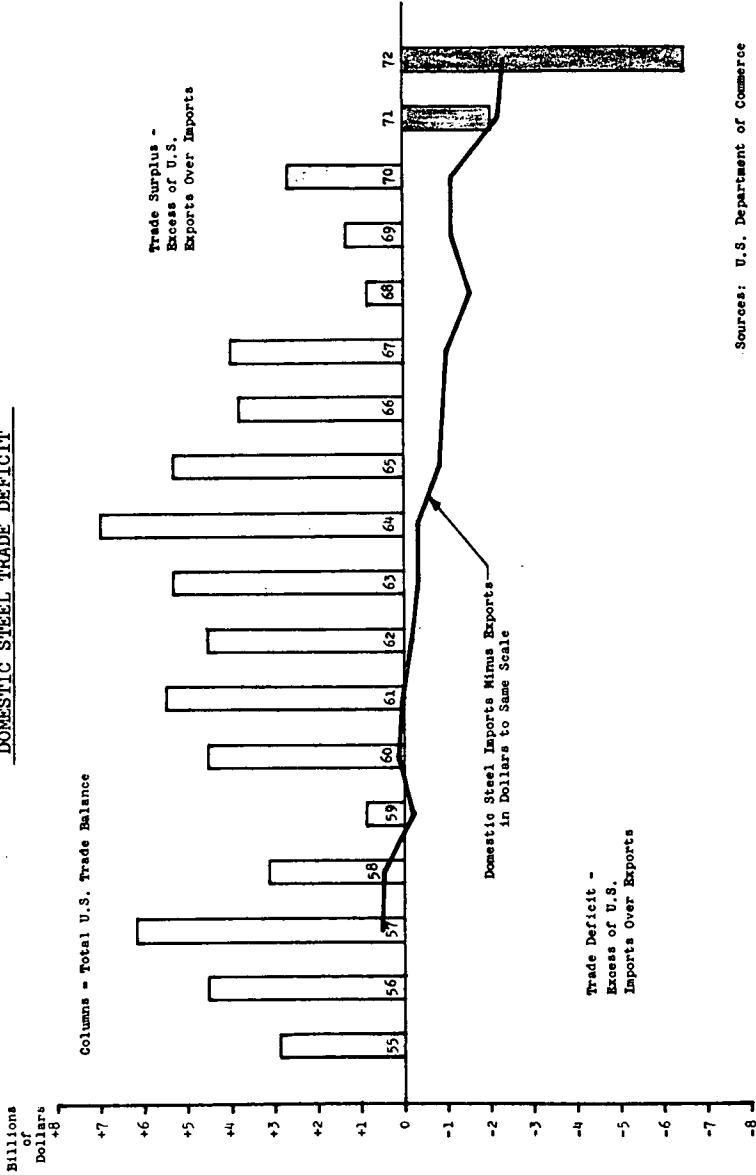
"All over Washington there are economic planners who think our industry has lots of idle capacity it can turn on with the flip of a switch," says William R. Roach, chairman and president of Jones & Laughlin Steel Corp. "But," he adds, "it just isn't so."

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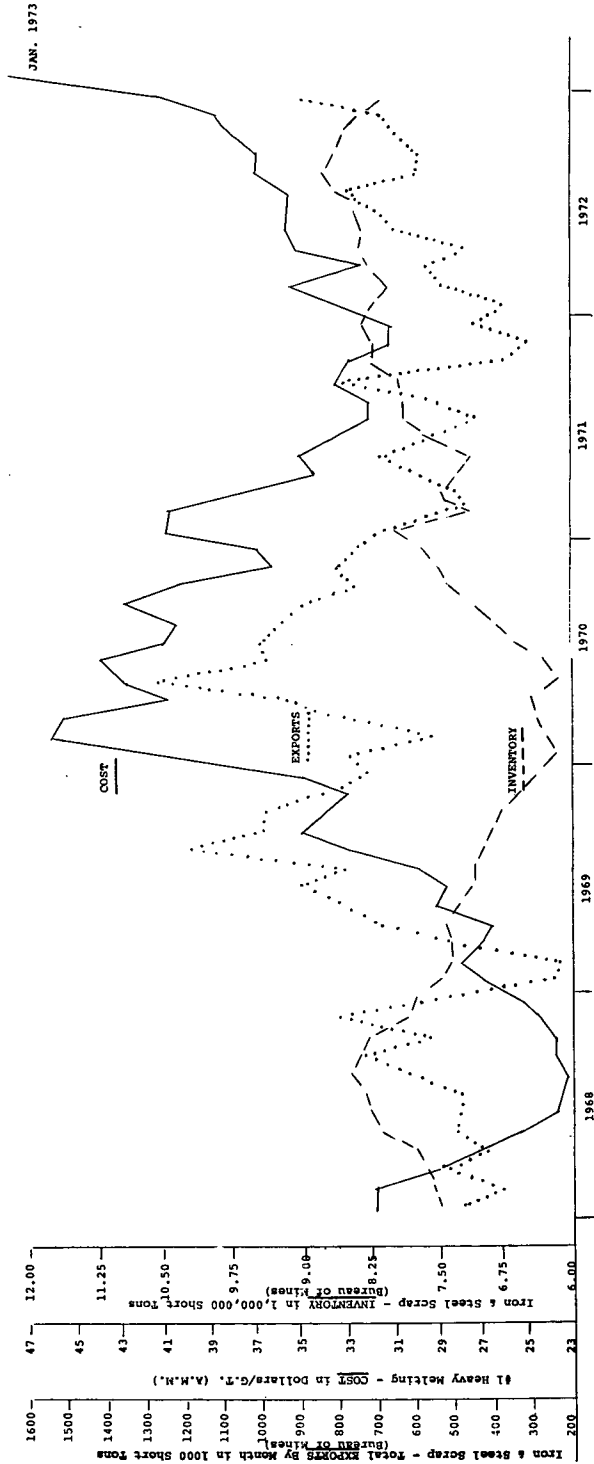
In any major expansion, steel executives say, mills can't simply add a steelmaking furnace or two. "You've got to spend \$120 an annual ton for the steel furnace, then \$40 a ton for a blast furnace to make molten iron and \$200 a ton for finishing facilities," one executive says. "The question is," he adds, "Do we, as an industry, really want to put our money into that game, given its historically low rate of return?"

Most likely, industry executives say, mills will attempt to "round out" their existing operations by bringing raw material and steelmaking facilities into greater balance. One executive says his company could boost shipping capacity to 6.8 million tons from 5.3 million tons with only a "relatively modest expenditure" in semi-finishing equipment.

U.S. INTERNATIONAL TRADE RECORD  
AND  
DOMESTIC STEEL TRADE DEFICIT



Sources: U.S. Department of Commerce  
A.I.S.I.





METAL MARKET STEEL SCRAP PRICE COMPOSITE  
 BASED ON NO. 1 HEAVY MELTING STEEL  
 AT PITTSBURGH, CHICAGO AND PHILADELPHIA

(Dollars Per Gross Ton)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>
JAN.	31.62	26.68	40.45	40.81	33.09	47.31
FEB.	31.54	28.11	46.03	40.66	35.29	49.43
MARCH	29.06	26.86	44.57	37.15	32.32	-
APRIL	26.87	26.33	40.92	34.30	35.12	-
MAY	25.23	29.12	42.97	34.92	35.64	-
JUNE	23.60	28.58	43.72	33.43	35.42	-
JULY	23.30	29.97	40.75	31.94	35.57	-
AUG.	23.11	32.90	40.40	32.16	37.38	-
SEPT.	23.66	34.90	42.76	33.44	37.28	-
OCT.	23.49	33.75	40.37	32.85	38.22	-
NOV.	24.48	32.91	35.95	31.08	38.96	-
DEC.	25.30	35.36	36.51	30.81	41.97	-
AVERAGE	25.94	30.54	41.25	34.46	36.63	

IRON AND STEEL SCRAP - TOTAL EXPORTS  
BUREAU OF MINES' STATISTICS

MONTHLY EXPORTS  
(Thousands of Net Tons)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Jan.	473	262	773	694	347
Feb.	362	233	541	465	534
March	520	530	804	490	595
April	407	713	957	591	454
May	497	823	1,279	696	664
June	491	906	999	563	698
July	479	790	1,052	433	774
Aug.	618	1,185	952	571	601
Sept.	749	1,038	905	816	596
Oct.	565	1,023	767	382	640
Nov.	812	810	819	302	675
Dec.	592	724	767	471	896
TOTAL	6,565	9,037	10,615	6,474	7,474

ANNUALIZED EXPORTS  
(Millions of Net Tons)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
Jan.	5.7	3.1	9.3	8.3	4.2
Feb.	4.3	2.8	6.5	5.6	6.4
March	6.2	6.4	9.6	5.9	7.1
April	4.9	8.6	11.5	7.1	5.4
May	6.0	9.9	15.3	8.4	8.0
June	5.9	10.9	12.0	6.8	8.4
July	5.7	9.5	12.6	5.2	9.3
Aug.	7.4	14.2	11.4	6.9	7.2
Sept.	9.0	12.5	10.9	9.8	7.2
Oct.	6.8	12.3	9.2	4.6	7.7
Nov.	9.7	9.7	9.8	3.6	8.1
Dec.	7.1	8.7	9.2	5.7	10.8

## IRON AND STEEL SCRAP - INVENTORY

## BUREAU OF MINES' STATISTICS

(1,000,000's of net tons)

	<u>1968</u>	<u>1969</u>	<u>1970</u>	<u>1971</u>	<u>1972</u>
JAN.	7.5	7.5	6.2	8.0	8.3
FEB.	7.7	7.5	6.3	7.4	8.2
MARCH	7.8	7.5	6.4	7.5	8.3
APRIL	7.9	7.5	6.4	7.3	8.3
MAY	8.1	7.4	6.3	7.2	8.2
JUNE	8.2	7.2	6.4	7.6	8.4
JULY	8.4	7.2	6.7	7.8	8.6
AUGUST	8.4	7.0	6.8	7.9	8.8
SEPT.	8.3	6.9	7.0	7.9	8.7
OCT.	8.3	6.9	7.3	8.3	8.6
NOV.	8.0	6.5	7.6	8.2	8.4
DEC.	7.9	6.4	7.7	8.3	8.1

Mr. REES. The next witness is William E. Mullestein, president, Lukens Steel Co.

Mr. Mullestein, in order to have time I will appreciate it very much if you would give us a summary of your statement. It is 10 minutes of 11 and we have two or three others that wish to testify, and I know the members of the committee wish to ask some questions.

**STATEMENT OF WILLIAM E. MULLESTEIN, PRESIDENT, LUKENS STEEL CO.**

Mr. MULLESTEIN. Mr. Chairman, I will go just as quickly as I can.

Mr. REES. Fine. We will appreciate it.

Mr. MULLESTEIN. I am representing here my company, Lukens Steel, as well as the American Iron & Steel Institute.

The continuing delay to limit the amount of ferrous scrap that can leave the United States is raising problems for domestic steel producers and posing serious questions about how to plan effectively for future growth. It follows that the steel industry welcomes the interest of this committee and supports the proposed amendments to the Export Administration Act of 1969. We hope that they will expedite the gathering of information and the investigation of the circumstances related to that information, so that action can be taken to protect the domestic economy from the excessive drain of scarce materials and commodities and to reduce the serious inflationary impact of abnormal foreign demand. Specifically, I am talking about the exportation of ferrous scrap.

Steel, like air and water, is so much a part of our daily living that over the years it has been taken pretty much for granted. It is everywhere. We travel on it, sleep on it, and eat with it.

The making of steel in its broad aspects furnishes employment for almost three-quarters of a million people in facilities in 37 of these United States. There is an important relationship between steelworkers and the subject before us this morning. That relationship is found in the fact that ferrous scrap accounts for half of the metal that is used by them in making steel.

Mr. Chairman, the United Steelworkers of America, both locally in Coatsville where our company is located, as well as nationally, is supporting the request of the steel industry for the imposition of export controls on the sale of scrap. John J. Sheehan, legislative director of the USWA has indicated that if permitted, the USWA will file a statement with this committee in support of our request for ferrous scrap export controls as well as the proposed amendments.

Mr. REES. I might say, without objection, it is so ordered; they can submit their statement and it will be in the record.

Mr. MULLESTEIN. All right. We will get in touch with Mr. Sheehan and say that permission has been granted. Thank you very much.

Scrap is even more important to the employees of the company I represent because iron and steel scrap is the principal raw material used in our electric furnaces. In fact, it composes more than 90 percent of the furnace charge.

For your information, Lukens Steel Co. is the Nation's oldest independent steel firm. Lukens makes only plate steels and in that segment of the steel industry has earned worldwide recognition as a quality

specialty leader. The company is semi-integrated—that is, it has no blast furnaces, so begins the manufacturing process with cold metal.

Just to divert a second. A staff representative asked me if the only cold-metal shop, were electric furnace shops. No, we still have some open hearths in our county that operate on cold metal and use no hot metal.

It is small compared to the major steel producers. Sales are in the \$150 million range annually. Employment is 4,500. It is the major employer in Chester County which has a population of approximately 279,000.

Circumstances which cause a shortage in our principal raw material, scrap, and push the price up to abnormal levels are of immediate and grave concern to Lukens and the reason becomes strikingly apparent when I tell you that 70 percent of the money that Lukens spends for raw materials goes to purchase ferrous scrap.

Currently we are closing out the first quarter of 1973. In comparing our scrap costs during this quarter with those in the first quarter of 1972, we note—with the grave concern I have just mentioned—that there is a difference of 45 percent in the unit prices of scrap. That is to say, we are paying 45 percent more for the same kind of steel scrap we are using this year's first quarter than we paid for the scrap used in the first quarter of 1972. In fact, during times of shortage, the equality seems to deteriorate as the price rises.

This has an uncontrollable inflationary effect upon our costs. The only way to accommodate this cost is to reflect it in selling prices, and that has an inflationary effect upon the national economy. That is something all of us must work diligently to avoid.

There is an increasing world demand for steel, so production is moving upward. It is expected to reach 735 million tons in 1973. It was 690 million tons last year. Obviously, more scrap is needed by the mills to meet this increased production.

You heard William Stapleton estimate a few minutes ago that it will cost domestic scrap consumers a minimum of \$400 million more for the scrap they purchase in 1973 than it did in 1972. This is due primarily to the high rate of scrap export. It is estimated that the domestic need for scrap will increase only about 10 percent this year over last, but that the demand for export scrap will increase 60 percent.

Applying this inflationary pressure to Lukens, we might expect, upon the basis of its first quarter experience, that steel scrap in 1973 could cost approximately \$4 million more than 1972 scrap cost. You might be interested in knowing that that is more than the company's net earnings in either 1970 or 1971.

Let me point out that the abnormal increase in the cost of scrap is not because of the 10 percent growth in domestic scrap requirements but unquestionably because of the 60 percent growth in foreign requirements. It is noteworthy that the almost complete embargo on the export of iron and steel scrap from the United Kingdom after last August confirmed the rising world demand for scrap. More important, countries previously dependent upon the United Kingdom for scrap have turned to the United States, the only major industrial country now permitting free exportation of these valuable iron and steel units.

That scrap should be in short supply is inevitable and the upward movement of scrap prices, particularly in recent months, advertises the scarcity of this raw material just as meat prices in the markets across the Nation herald the fact that more and more people want more and more of that product.

The steel industry is not unfamiliar with shortages. There are shortages of people with some of the skills required in steel manufacture. There are shortages of gas to fire the furnaces and there are shortages of electricity. There also is not an unlimited supply of money to finance growth and to meet the ecological problems of the day.

To meet the shortage of skills, we have instituted broad scale training and development programs to upgrade employees. A continuing steelmaking modernization program was inaugurated by our company in 1957. To date \$150 million has been spent to provide the most modern and efficient facilities available. None of that money was spent to increase capacity, rather it went for modernization and efficiency. In the early days of that program we worked out a borrowing arrangement with three customers in order to work around the shortage of money.

Now, with an advanced electric furnace complex, efficient rolling mills, vacuum degassing, continuous casting, electro-gas remelt, and other up-to-date equipment, Lukens has overcome the shortage of new facilities. Other companies have done the same. Research is at an all-time high and problems associated with ecology are being solved.

This is to say that shortages and problems have been and are continuing to be met and overcome. The industry is strong and viable, able to contribute as it always has toward making America strong.

At this point in the good story we run smack up against a foreign generated scarcity in the supply of scrap which is beyond our control. That is a basic raw material scarcity that is pretty hard to work around. I did not mention it before, but it is worthy of note: The greatest scarcity is in the best grades of scrap which are required to produce our quality products.

To those who contend that scrap prices have softened recently and that it would be inappropriate to impose controls on exports, let me answer that, according to the American metal market's composite price for No. 1 heavy smelting steel scrap, they softened to \$47.67 per gross ton for the week ending March 16. That was down \$1.76 or 3.5 percent from the average of \$49.43 in February. That softened price still is 35 percent above the price of a year ago, or 50 percent above the beginning of 1972.

Price is not the sole factor for consideration. The exportation of scrap at present volume in the long run could amount to the exportation of job opportunities. If the world demands more steel, it follows that there should be new opportunities for employment. Any move that would make steel production growth difficult in this country does not appear consistent with national employment aims. But that is what our present policy of limitless scrap export does.

The Reverend William T. Hogan, professor of economics at Fordham University and director of the University's Industrial Economics Research Institute, undoubtedly is known to most of you as one of the most knowledgeable authorities on the steel industry. In his book, "The 1970's: Critical Years for Steel," he estimated that domestic raw steel needs will grow to 175 million tons annually before this decade ends.

On Tuesday of this week he talked about why we are going to need more scrap, saying—and I quote :

Some former sources are drying up.

The devaluation of the dollar makes scrap cheaper abroad and will tend to increase its flow in that direction.

We need more scrap to feed the increasing number of electric furnaces operating in this country.

Continuous casting reduces the amount of scrap generated here.

The pellet program has not developed as fast as expected and pellet production in substantial quantity is 4, 5 years away. Gas, due to its short supply, is not available in the quantity required to expedite pelletizing.

The continued unrestricted export of scrap with its inflationary effect upon price will leave some companies no choice but to seek substitute materials for the manufacture of steel. Such materials will have to come from sources outside this country because of the critical energy shortage in the United States, all of which will contribute to a further adverse effect upon our balance of trade.

Again, may I express my appreciation for the interest and, hopefully, the sympathetic understanding of the committee in our current problem.

It is our considered opinion that the current high rate of scrap export from this country is having a significant inflationary impact upon Lukens, the steel industry, and the economy.

Studies indicate that, with this high rate of export, scarcities of scrap have developed as the domestic steel industry endeavors to meet its requirements. No action has been taken to solve this problem, although the Export Administration Act of 1969 as amended in 1972 provides the means for taking action. We believe that Congress, in passing the act, intended that restrictions be placed upon the export of scrap when the conditions which we have discussed exist.

While it is our opinion that the proposed amendments to the act will not solve the problem totally, they will provide another vehicle for carrying out the desires of Congress by directing the attention of the Secretary of Commerce to the serious nature of the current problem, and we support them wholeheartedly.

Mr. REES. Thank you very much, sir.

Mr. MULLESTEIN. I hope I did not take too much time.

Mr. REES. No. We are right on time.

The next witness will be Fred Berman, the president of the Institute of Scrap Iron & Steel, Inc.

Mr. BERMAN. Good morning, Mr. Chairman. I will summarize my statement as much as possible without losing the continuity of it in the interest of time.

**STATEMENT OF FRED BERMAN, PRESIDENT, INSTITUTE OF SCRAP IRON & STEEL, INC., ACCOMPANIED BY DR. HERSCHEL CUTLER, EXECUTIVE DIRECTOR, AND THOMAS H. BOGGS, JR., WASHINGTON COUNSEL**

Mr. BERMAN. Mr. Chairman and members of the subcommittee. My name is Fred Berman. I appear as president, Institute of Scrap Iron and Steel, Inc. (ISIS), a national trade association representing approximately 1,250 members who are processors, brokers, and dealers in the metallic scrap processing industry throughout the entire United

States. Institute members process, ship, or otherwise handle approximately 90 to 95 percent of the iron and steel scrap purchased in the United States and handle equally impressive percentages of the many other metallic solid waste materials which are recycled in our economy. I am also president of Berman Bros. Iron & Metal Co., Inc., headquartered in Birmingham, Ala., a scrap processing firm specializing in the preparation of ferrous metallics for recycling into new iron and steel products.

Accompanying me this morning, on my right, is Dr. Herschel Cutler, executive director of the institute and a professional economist, and, on my left, Thomas H. Boggs, Jr., Washington counsel to the institute.

The issue before the subcommittee today is H.R. 5769, a bill to amend the Export Administration Act of 1969. The institute has a great and longstanding interest in this act and its predecessors, since exports are a small but important segment of the market for processed iron and steel scrap.

The Export Administration Act recognizes the role of both domestic and foreign commerce in the strength of the U.S. economy, while at the same time imposing only those controls on trade which are absolutely essential to the security and economic health of the Nation. For these reasons, we are surprised at the present direction of H.R. 5769 because of its limitations on foreign commerce, lacking any presence of, and without any countervailing demonstration of, security or economic need for such limitations.

Before discussing our specific concerns with H.R. 5769 which would expand the use of export controls, it is essential that this subcommittee understand the operation of the ferrous scrap market. Once the input forces in this market are understood, it will be clear to the subcommittee that the proposed expansion of export controls in this area is not only unwarranted but is in fact detrimental to the ferrous scrap market.

Iron and steel scrap is sold in a market governed solely by supply and demand. The market historically has experienced numerous short-term fluctuations reflecting these forces. The attachments to my prepared statement show a 20-year history of the price movement of No. 1 heavy melting and No. 2 bundle scrap, two bellweather grades.

On the chart to your immediate right is the average price of No. 1 heavy melting steel from 1952 to 1972, by year. It is obvious that the wide swings, up and down, all tend to exhibit a long-run equilibrium around a narrow price range.

The reason for these short-term price fluctuations is clear, and a solution is readily available to the steel industry. The volatility of the ferrous scrap market rests with the purchasing practices of the steel mills and foundries. These buyers fail to follow the basic purchasing policies which characterize the procurement of essential materials in virtually all other manufacturing industries. Inventory control practices which would minimize the negative impact of wide price fluctuations generally are not used.

The opportunities for informed buying to flatten the peaks and valleys abound for the scrap buyer. It was possible to buy more than the required scrap at the low price levels which existed during the doldrums of the past 2 years. Some mills did, thereby insulating themselves from the recent price movement. The fact that such buying



has relieved the problem for those mills indicates that it is not the export of scrap that has caused the price rise, rather it is the buying practices of the majority of domestic scrap purchasers.

Generally, the mills and foundries have not purchased with any concept of the need to preserve a viable supply system; rather they buy to meet crises and as such have created a crisis controlled marketplace. They see no reason to buy when the price is low, ignoring entirely the value of adding to inventory at low purchase price levels. The effect of this policy is to atrophy the scrap supply system to the extent that when the next boom in steel demand arises, the steel mills and foundries have very low inventory levels which necessitate fast and concentrated buying of scrap materials. This sudden burst of demand can only have one effect—an effect that all concerned recognize—namely, higher prices.

When, after long absences, virtually all the mills and foundries re-enter the market at approximately the same time, at high volume levels, the immediate demand cannot be instantaneously met by the then available supply. The supply exists but it is not processed; in many cases, it is not normally movable. The processor must pay a realistic and economically feasible price to the collector of obsolete scrap, to encourage his participation in the scrap cycle to fill mill requirements.

Obsolete scrap is the metallic solid waste problem facing our Nation today. Junk automobiles, old refrigerators, stoves, wornout farm equipment, and so forth, would not move in the ordinary course of events unless the price paid to the scrap collector is high enough to insure that it moved to the scrap processor for eventual recycling.

In basic terms, when steel demand rises with the resultant increase in scrap demand, those firms and individuals who had been hauling farm products or other merchandise can be induced to collect junk autos and other metallic discards only if the price is higher than would have prevailed had the supply system been functioning properly. The firm or individual must be convinced to shift from other ventures to scrap iron collection. They do so realizing that the scrap market will not continue to provide a reasonable living since scrap demand will soon be met and prices will fall. The scrap processor must pay more; the steel mill must pay more. The problem is not exports or actions by the processors; the problem is the buying practices of the consumers.

As scrap prices increase, the risk inherent to buying, processing, and selling scrap escalates and the capital required to continue operations accelerates such that the scrap processor is not any better off at these levels than at the levels in being a few months ago, if not in fact worse off. By way of an example, I am today paying more for unprepared railroad scrap to be processed into a material that can be used by steel mills and foundries than I sold that prepared material for as recently as 90 days ago. I am filling orders at lower prices from that time period with material that costs more to purchase today.

Thus, the processors have as much interest in the moderation of price fluctuations as do the consumers. In times such as we have just experienced, we must pass on the increases since in order to obtain the volumes of scrap required we, the processors, must pay more to

the collectors to entice them to bring to our yards the necessary scrap to meet the orders of the mills and foundries.

Moreover, the practice of buying scrap when steel demand is up and avoiding other than minimal purchases of scrap when steel demand is down leads to everwidening ranges of price fluctuations.

It is not possible to buy only at the low point. All types of analysts have tried this for years to no avail. The steel industry continues to believe that it should be permitted to buy as it desires at prices forced below the levels which natural economic forces would attain. In fact, industry is here today requesting legislation insuring that it can buy at these low levels. The power of Federal statute has seldom been used to limit the free market forces only on the high side of prices. H.R. 5769 if applied to scrap would do just that.

Congress has stated in the past that export controls are necessary in three specific situations: (a) To protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand; (b) to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and (c) to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

The institute's position on the nonapplicability of the 1969 act can be summarized briefly. First, there is no shortage of ferrous scrap, there has been none. No mill or foundry was or is unable to obtain all the ferrous scrap it desires. Certainly, mills and foundries might prefer to pay lower prices, but the material is available.

Second, no abnormal foreign demand is present, since exports in 1973 are not expected to exceed previous years. If exports do not surpass those recorded in the recent past, how can any allegation of abnormality be seriously entertained.

Finally, foreign demand has no inflationary impact. Inflationary pressures produce a long-term upward trend of prices. This is not the situation in the short-term price fluctuations which characterize the ferrous scrap market. In fact, reference to attachments I and II shows no price inflation for scrap iron. On the contrary, this presentation shows an almost insensitive price in the face of our inflationary problem. Ferrous scrap is selling even today at levels below that attained in 1956. For an example of price escalation, attachment III presents the chart of steel prices indicating a clear doubling of price over the past 20 years. The green line on the chart is the yearly average composite price of finished steel from 1952 to 1972.

Comparison of the charts indicate a very basic fact that really shows the weakness of this entire argument. It is obvious that with scrap prices fluctuating up and down around a very stable equilibrium point and steel prices moving upward without stop, there is little or no relationship between the price of scrap iron and the price of steel.

What is at stake is purely and simply an attempt to limit scrap prices to permit the steel industry to escape the consequences of its purchasing policies. We submit this is not a proper legislative undertaking.

H.R. 5769 would permit the steel industry to achieve its goal of export controls despite the fact that it is unable to show any of the pre-

requisites which have been necessary for decades to justify imposition of controls. It is ironic that the 1969 act, which removed many of the inhibitions of freer international trade, is now proposed as the vehicle for restricting such trade.

H.R. 5769 contemplates a radical departure from the limited authorization to impose controls contained in current legislation. This bill would permit such controls if present on prospective domestic inflationary impact exists and directs the Department of Commerce to assure the availability of materials on a priority basis to domestic users at stable prices. This proposal is solely a means to control price, and as will be explained in the succeeding section, is an undesirable public policy.

Price controls in the form of export controls are now sought because of the temporary increase in the costs of raw materials. The institute obviously is not in a position to comment on the appropriateness of these controls in sectors of the economy other than metallic scrap. As a general proposition, however, we oppose price controls in a free society. They should be imposed only when no alternative exists.

In the case of ferrous scrap, viable alternatives exist and are generally recognized. Purchasing by mills and foundries on the same basis used by all other industries would reduce substantially the fluctuation in scrap prices. The help that is needed is not in the form of a new law; what is needed is an understanding by the buyer of his role in controlling his own market. Legislation imposing price controls on ferrous scrap serves only to insulate mills and foundries from their purchasing mistakes, intended or unintended.

There are numerous detrimental side effects of export controls which must be recognized and which add weight to the argument that such controls are unnecessary for ferrous scrap.

First, such a measure would serve only to reduce the size of the scrap market and any denial of export markets merely adds to the solid waste problems we already face as a Nation.

Second, scrap iron and steel is a positive contributor to the U.S. balance of payments in the range of \$500 million annually. The imposition of export controls for ferrous scrap, thus, would have a decided negative effect on the U.S. balance of trade position.

In addition to the immediate negative effect of controls on the U.S. balance of trade, these controls have long-term negative implications as well. No assurances exist that U.S. scrap processors could reclaim markets lost as the result of such controls once the current demand of mills and foundries subsides. Nor does the bill contain any assurance that these lost foreign markets will be offset by continued domestic demand.

Third, what does the steel and foundry industry propose to do with the millions of tons of ferrous materials lying on the west coast and New England for which there is no conceivable demand?

With the west coast generating approximately 2½ to 3 times the annual possible domestic consumption of scrap iron locally, how would export controls help when the freight rate from the West precludes any movement over the Rockies?

With the New England States generating much more scrap than can be consumed locally and with freight rates to the nearest mills precluding its movement, how can export controls help move that material to a consumption point?

Finally, it is critical to again stress the environmental impact of the proposed bill. In the coastal areas, where few domestic consumers exist, the inability to export on the free market would only increase metallic effluents, a major problem even with foreign trade channels open. The junk auto problem would become more acute, the dumps would soon be filled with old refrigerators and stoves, every auto trip would be marred by eyesores and metallic accumulations posing health and sanitation problems, the will of this Congress as expressed in the National Environmental Policy Act would be desecrated, all to limit shortrun price increases which would be removed by self-action.

Scrap iron and steel is not a natural resource; it is a manmade resource. Scrap iron and steel is generated wherever people congregate and it is available as a direct substitute for the limited natural resource with which it competes in the making of steel iron ore in its many forms. Scrap iron and steel is not now being utilized to the extent approaching its domestic potential. As a result the huge inventories of available obsolete scrap iron continue to accelerate on a daily basis. There is no shortage and no reason for any short-supply controls.

The domestic steel and foundry industries are not consuming as much scrap iron as they can as is evident in the repeated statements by the American Iron and Steel Institute (AISI) representatives who note that lower freight rates would increase the demand for metallic waste removed from municipal refuse. Clearly the problem is not the shortage of such metallics—AISI has stated that upward of 14 million tons could be recovered from municipal waste—but rather it is the price in the form of the delivered cost. Thus, AISI affirms the position of the ferrous scrap processing industry that supply is not the issue; rather, it is the delivered price.

Again, the steel industry is on record repeatedly with its many programs dealing with recycling of ferrous scrap. The steel industry has posted advertisements and public utterances by its leaders that it will accept and recycle all the tin cans and other metallic waste generated by the American populace. The missing ingredient is not supply but rather such factors as technologies to separate the metals from the waste stream and lower freight rates. The technologies and freight rates are cost factors. The material can be separated by magnets. The scrap can move at the high rates. What is not the issue is supply. There are available metallics in more than sufficient quantities to be melted. That there is no shortage of scrap is evident in the lack of recent action by the steel and foundry industries in areas where actions would be louder than words. For example, no mention is heard from those industries in the proposed foreign sale of 20 Victory ships for break-water purposes from the reserve fleet instead of waiting to allow these ships to be scrapped for the 125,000 tons of the fine scrap available in those bulks. How can there be a scrap shortage when neither the steel industry nor the Department of Commerce and its Maritime Administration are striving to stop such a sale? How can there be a shortage of ferrous scrap when domestic steel mills are selling for export the home scrap which they generate within their mills and the semi-finished steel which they produce?

There certainly is something less than a shortage when American steel mills find so much scrap available they become sellers of scrap iron for export, in many instances to those very countries which they allege are creating "abnormal demands."

How can there be a shortage when steel mills and foundries are canceling orders—orders which, as was noted previously, are only for 30 days' duration—canceling orders when, allegedly, there is this critical need for material?

How can there be a shortage when mills are not "in the market" even though scrap prices have fallen and continue to fall on a weekly basis?

Apart from the various policy considerations just outlined, which far outweigh any necessity for export controls in the ferrous scrap industry, the Institute of Scrap Iron and Steel has a number of specific objections to the proposed legislation.

Price control, as suggested in the term "stable prices," is nowhere defined. The absence of a definition of "stable prices" is understandable simply because stability demands a concept of midpoint.

A price can be as stable at \$60 per ton as it can be at \$30 per ton. If price stability means simply around some midpoint, the bill provides no insight into the propriety of a potential range of bases. Moreover, the bill would be subject to legal challenge without some indication of the concept of "stability."

The most efficient means to approach price stability is volume stability. If the consumers will buy on a continuous basis such that supply requirements do not fluctuate in the millions of tons annually, it will result in more stable prices. If stable prices are legislated, then it is essential that stable purchases likewise become part of the law.

The term "priority" in the proposed legislation is also troublesome, both as a concept, since no theoretical basis for priority has been established, and as a practical matter, since the criteria for such priority are nowhere to be found. Certainly the intent cannot be that all American scrap iron must first be offered to domestic consumers for sale and only when no interest is expressed by them can foreign orders be considered. Certainly also it cannot be envisioned that American buyers of a commodity in great supply can dictate world prices for the commodity by insisting on priorities to limit world trade.

For example, Battelle Memorial Institute has completed a study for the Environmental Protection Agency dealing with increased markets for recyclable materials. In the report, Battelle found an inventory of scrap iron in this Nation in 1969 in excess of 750 million tons. That inventory represents more than 15 years' worth of scrap iron consumption, both domestic and export, at the high now being recorded. There cannot be a shortage or anything approaching a situation that requires, much less supports, the possibility of priorities of any type. In addition, Battelle reported that only 60 percent of the newly available scrap iron is being recycled so that this massive inventory is being added to at a huge rate every year.

The third question deals with the term "inflationary impact." This is undoubtedly the most widely misunderstood term in this entire situation. Inflation is not a sudden price change in a commodity that has long exhibited upward/downward price movements as a natural consequence of the free market. Just as deflation is not a charge when prices are low, and certainly the steel industry has not suggested price supports for upward movement of scrap prices at low levels, so also must the high prices of short duration be recognized for what they are—natural market forces at work. This is not inflation; it is simply price movement.

The impact of the recent price movement is likewise clearly not inflationary since prices of scrap and prices of steel are not in the least related as is demonstrated in the attached charts. Thus, inflationary impact needs definition.

The foregoing criticism of H.R. 5769 in no way implies that the scrap iron and steel industry is satisfied with the present status of the market. On the contrary, the institute believes specific governmental incentives for increased scrap consumption to be essential. Earlier this week, I presented a specific proposal to the House Ways and Means Committee which would provide a tax incentive for the use of recycled solid waste to offset in part the competitive advantage now enjoyed by virgin ore as the result of such tax benefits as depletion, capital gains from ore royalties, and special exploration and development deductions. A copy of my statement is attached.

In addition, present discrimination in railroad freight rates, against scrap iron and steel vis-a-vis virgin ore, must be eliminated. The institute is continuing to press the removal of this discrimination before the Interstate Commerce Commission.

The position enunciated today by the ferrous scrap processing industry was never better stated than by E. F. Andrews, Allegheny Ludlum Industries, Inc., and, at the time, chairman, Committee on Critical Material Supply, American Iron and Steel Institute, who said, on May 24, 1972, that:

While we have been taking the Government to task for permitting excessive exporting of critical materials, this industry is not without some responsibility. The scrap industry has accused us in past years of refusing to purchase material when it was at very low cost and in plentiful supply due to low operating rates in our industry. It is only natural that, as materials backed up in substantial quantities in processors' yards, they turned to the inviting foreign markets. A restudy and reordering of our industry's investment policies may be needed. In this way, perhaps we can make a contribution to the reduction in the rate of outflow of critical materials and in a lessening in the economic swings, price-wise, on such materials.

That restudy is the answer; not legislation to control scrap exports. Thank you, Mr. Chairman, and members of the subcommittee. We will certainly be happy to answer any questions of the subcommittee. Before we do, Mr. Boggs has some suggestions which we would like to offer as possible ways to improve H.R. 5769.

Mr. REES. Thank you very much, Mr. Berman. We are facing a time problem. Mr. Workman is here and has a statement. How long would your statement be, Mr. Boggs?

Mr. Boggs. Mr. Chairman, about 2 minutes.

Mr. REES. Fine.

Mr. Boggs. These are just specific word changes we would like to recommend to the bill.

On page 2 of section 4(e) at line 4 the term "present or prospective domestic inflationary impact." We would like to add after the word "impact," "of a long-term increase in average price," so that there is some definition within the statute itself of the words "domestic inflationary impact."

Further down in the same section——

Mr. MITCHELL. What was that wording again?

Mr. Boggs. Excuse me. Right after the word "impact," "of a long-term increase in average price."

Going down to line 6 of the same section, after the words "of the domestic demand," we would like to insert the words "and supply." At the end of that paragraph, we would like to end the paragraph after the word "availability," and strike "on a priority basis to domestic users at a stable price."

Mr. REES. Minor technical amendment.

Mr. BOGGS. Moving down, Mr. Chairman, to the next section of the bill, at line 21—if you have a marked copy—after the words "Secretary of Commerce shall appoint a technical advisory committee for any grouping of such materials or commodities," after the word "commodities," strike the rest of lines 23, 24, and 25 to the period and, then, insert in lieu thereof "and shall consult with."

The reason those words are added is that in many cases Congress tells the Secretary to appoint a committee, which he does, but he has no legal requirement to consult with that committee, so the committee just sits there. We thus would suggest the addition of "and shall consult with such committee on the existence of any present or prospective domestic inflationary impact," because I think that should be one of the functions of these particular committees, and it is not a requirement as the bill is presently drafted.

Then and shall consult with such committee on the existence of any present or prospective domestic inflationary impact, taking into consideration such matters as worldwide availability and the actual and appropriate use of domestic production facilities, technology and supplies, and shall further consult with such committee on technical matters such as licensing procedures.

Those are the requirements already in the statute as it is drafted.

Mr. BROWN. Mr. Chairman, could I suggest that the logical way for him to do this is for him to type up his proposed changes and submit them to us.

Mr. BOGGS. We certainly will. The chairman asked us at the beginning of the hearing for some specific legislative changes.

Mr. BROWN. We will be glad to get your wording.

Mr. BOGGS. That concludes my comments, Mr. Chairman.

Mr. REES. Fine. Thank you.

[The prepared statement with attachments submitted by Mr. Berman reads as follows:]

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March 23, 1973

**Statement of Fred Berman  
President, Institute of Scrap Iron and Steel Inc.  
Subcommittee International Trade  
Committee on Banking and Currency  
U. S. House of Representatives**

Mr. Chairman and members of the Subcommittee, my name is Fred Berman. I appear as President of the Institute of Scrap Iron and Steel, Inc. (ISIS), a national trade association representing approximately 1,250 processors, brokers and dealers in the metallic scrap processing industry. Institute members process, ship or otherwise handle approximately 90%-95% of the iron and steel scrap purchased in the United States and handle equally impressive percentages of the many other metallic solid waste materials which are recycled in our economy. I am also President of Berman Bros. Iron & Metal Co., Inc., headquartered in Birmingham, Alabama, a scrap processing firm specializing in the preparation of ferrous metallics for recycling into new iron and steel products.

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#### I. The Ferrous Scrap Market

Before discussing our specific concerns with H.R. 5769 which would expand the use of export controls, it is essential that this subcommittee understand the operation of the ferrous scrap market. Once the input forces in this market are understood, it will be clear to the Subcommittee that the proposed expansion of export controls in this area is not only unwarranted but is in fact detrimental to the ferrous scrap market.

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Generally, the mills and foundries have not purchased with any concept of need to preserve a viable supply system; rather they buy to meet crises and as such have created a crisis controlled marketplace. They see no reason to buy when the price is low, ignoring entirely the value of adding to inventory at low purchase price levels. The effect of this policy is to atrophy the scrap supply system to the extent that when the next boom in steel demand arises, the steel mills and foundries have very low inventory levels which necessitate fast and concentrated buying of scrap materials.

This sudden burst of demand can only have one effect--an effect that all concerned recognize--namely higher prices.

When, after long absences, virtually all the mills and foundries re-enter the market at approximately the same time, at high volume levels, the immediate demand cannot instantaneously meet the needed supply. The supply exists, but it is not processed; in many cases it is not normally movable. The processor must pay a realistic and economically feasible price to the collector of obsolete scrap--to encourage his participation in the scrap cycle to fill mill requirements.

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Thus, the processors have as much interest in the moderation of price fluctuation as do the consumers. In times such as we have just experienced, we must "pass on" the increases since in order to obtain the volumes of scrap required we, the processors, must pay more to the collectors to entice them to bring to our yards the necessary scrap to meet the orders of the mills and foundries.

Moreover, the practice of buying scrap when steel demand is up and avoiding other than minimal purchases of scrap when steel demand is down leads to ever-widening ranges of price fluctuations. This must result because the increase in steel demand, leading to increased scrap demand, requires the addition of significant volumes of obsolete scrap (as contrasted with prompt industrial scrap that is generated in the metal fabricating industries and moves into mills and foundries in a continuous fashion).

It is not possible to buy only at the low point. All types of analysts have tried this for years to no avail. The steel industry continues to believe that it should be permitted to buy as it desires at prices forced below the levels which natural economic

forces would attain. In fact, industry is here today requesting legislation insuring that it can buy at these low levels. The power of Federal statute has never been used to limit the free market forces ONLY on the high side of price. H.R. 5769 if applied to scrap would do just that.

## II. The Export Administration Act of 1969

H.R. 5769 would introduce a radically new concept into export control legislation which has its genesis in the problems created by World War II and its aftermath. The Export Administration Act of 1969 was a recodification of the Export Control Act of 1949 with a revised emphasis, reflecting new realities and priorities in the 1970's.

Nevertheless, the basic policies with respect to the use of export controls are identical under both acts. Congress has stated that export controls are necessary in three specific situations:

- A. to protect the domestic economy from the excessive drain of scarce materials and to reduce the inflationary impact of abnormal foreign demand;
- B. to further the foreign policy of the United States and to aid in fulfilling its international responsibilities; and
- C. to exercise the necessary vigilance over exports from the standpoint of their significance to the national security of the United States.

The President is authorized under the Act to prohibit or curtail the exportation from the United States of goods or technical data if such prohibition or curtailment is necessary to effectuate the policies of the Act. Authority to administer the Act has been delegated to the Department of Commerce.

The Secretary of Commerce is required under this Act to impose export controls if he determines, after due investigation, that controls are necessary for national security or foreign policy reasons or if a particular product is in short supply.

H.R. 5769 seeks to expand the short supply requirement to meet an entirely new situation. Since this bill is not based on either national security or foreign policy grounds, which historically have been the predominant bases for export controls, this discussion will be limited to the remaining existing statutory authority for controls. Three prerequisites exist before controls may be imposed for goods in short supply:

- 1) excessive drain of scarce materials
- 2) abnormal foreign demand
- 3) serious inflationary impact of such demand

As the Institute has repeatedly demonstrated to the Department of Commerce and all other interested parties, NONE of these criteria can be found in the existing marketplace for ferrous scrap and NONE were found during the past few months when allegations concerning a scrap shortage were rampant. Because none of these criteria were in being, the Department of Commerce properly did not institute controls. The Institute's most recent submission to the Department of Commerce with respect to the need to impose controls under the Export Administration Act of 1969 is attached.

The Institute's position on the non-applicability of the 1969 Act can be summarized briefly. Firstly, there is no shortage of ferrous scrap, there has been none. NO MILL OR FOUNDRY WAS OR IS UNABLE TO OBTAIN ALL THE FERROUS SCRAP IT DESIRES. Certainly, mills and foundries might prefer to pay lower prices, but the material is available.

Secondly, no abnormal foreign demand is present, since exports in 1973 are not expected to exceed previous years. If exports do not surpass those recorded in the recent past, how can any allegation of abnormality be seriously entertained.

Finally, foreign demand has no inflationary impact. Inflationary pressures produce a long-term upward trend of prices. This is not the situation in the short term price fluctuations which characterize the ferrous scrap market. In fact, reference to Attachments I & II shows NO price inflation for scrap iron. On the contrary, this table shows an almost insensitive price in the face of our inflationary problem. Ferrous scrap is selling even today at levels below that attained in 1956. For an example of price escalating, Attachment III presents the chart of steel prices which indicates a clear doubling of price over the past twenty years.

Comparison of the charts indicate a very basic fact that really shows the weakness of this entire arguments. It is obvious that with scrap prices fluctuating up and down around a very stable equilibrium point and steel prices moving upward without stop, there IS LITTLE OR NO RELATIONSHIP BETWEEN THE PRICE OF SCRAP IRON AND THE PRICE OF STEEL.

What is at stake is purely and simply an attempt to limit scrap prices to permit the steel industry to escape the consequences of its purchasing policies. We submit, this is not a proper legislative undertaking.

H.R. 5769 would permit the steel industry to achieve its goal of export controls despite the fact that it is unable to show any of the prerequisites which have been necessary for decades to justify

imposition of controls. It is ironic that the 1969 Act, which removed many of the inhibitions on freer international trade, is now proposed as the vehicle for restricting such trade.

H.R. 5769 contemplates a radical departure from the limited authorization to impose controls contained in current legislation. This bill would permit such controls if present or prospective domestic inflationary impact exists and directs the Department of Commerce to assure the availability of materials on a priority basis to domestic users at stable prices. This proposal is solely a means to control price, and as will be explained in the succeeding section is an undesirable public policy.

### III. Price Control Through Export Control Is Improper

Price controls in the form of export controls are now sought because of the temporary increase in the costs of raw materials. The Institute obviously is not in a position to comment on the appropriateness of these controls in sectors of the economy other than metallic scrap. As a general proposition, however, we oppose price controls in a free society. They should be imposed only when no alternative exists.

In the case of ferrous scrap, viable alternatives exist and are generally recognized. Purchasing by mills and foundries on the same basis used by all other industries would reduce substantially the fluctuation in scrap prices. The help that is needed is not in the form of a new law; what is needed is an understanding by the buyer of his role in controlling his own market. Legislation imposing price



controls on ferrous scrap serves only to insulate mills and foundries from their purchasing mistakes, intended or unintended.

The nation's recent experience with direct price controls confirmed the prior experience of World War II. Direct price controls prove difficult to administer and inequitable in operation. These problems and inequities will only be compounded when price control is accomplished indirectly in the manner contemplated by H.R. 5769.

There are numerous detrimental side-effects of export controls which must be recognized and which add weight to the argument that such controls are unnecessary for ferrous scrap.

Firstly, such a measure would serve only to reduce the size of the scrap market and any denial of export markets merely adds to the solid waste problems we already face as a nation.

Secondly, scrap iron and steel is a positive contributor to the U.S. balance of payments in the range of five hundred million dollars annually. The imposition of export controls for ferrous scrap, thus, would have a decided negative effect on the U.S. balance of trade position. On the contrary, the same steel industry that asks for export controls of ferrous scrap is importing at an annual rate of approximately 50 million tons of iron ore (the direct competitor of ferrous scrap) each ton of which is a negative factor in our balance of trade position. In addition to the immediate negative effect of controls on the U.S. balance of trade, these controls have long-term negative implications as well. No assurances exist that U.S. scrap processors could reclaim markets lost as the result of such controls once the current demand of mills and foundries subsides. Nor does the bill contain any assurance that these lost foreign markets will be offset by continued domestic demand.

Thirdly, what does the steel and foundry industry propose to do with the millions of tons of ferrous materials lying on the West Coast and New England for which there is no conceivable American demand? With the West Coast generating approximately 2-1/2 to 3 times the annual possible domestic consumption of scrap iron locally, how would export controls help when the freight rate from the West precludes any movement over the Rockies? With the New England states generating much more scrap than can be consumed locally and with freight rates to the nearest mills precluding its movement, how can export controls help move that material to a consumption point?

Finally, it is critical to again stress the environmental impact of the proposed bill. In the coastal areas, where few domestic consumers exist, the inability to export on the free market would only increase metallic effluents, a major problem even with foreign trade channels open. The junk auto problem would become more acute, the dumps would soon be filled with old refrigerators and stoves, every auto trip would be marred by eyesores and metallic accumulations posing health and sanitation problems. The will of this Congress as expressed in the National Environmental Policy Act would be desecrated, all to limit short run price increases which would be removed by self action.

Scrap iron and steel is not a natural resource--it is a man-made resource. Scrap iron and steel is generated wherever people congregate and it is available as a direct substitute for the limited natural resource with which it competes in the making of steel--iron

ore in its many forms. Scrap iron and steel is not now being utilized to the extent approaching its domestic potential. As a result the huge inventories of available obsolete scrap iron continue to accelerate on a daily basis. There is no shortage and no reason for any short supply controls.

The domestic steel and foundry industries are not consuming as much scrap iron as they can as is evident in the repeated statements by the American Iron and Steel Institute (AISI) representatives who note that lower freight rates would increase the demand for metallic waste removed from municipal refuse. Clearly the problem is not the shortage of such metallics. AISI has stated that upwards of 14 million tons could be recovered from municipal waste--but rather the price in the form of the delivered cost. Thus, AISI affirms the position of the ferrous scrap processing industry that supply is not the issue, rather it is delivered price.

Again, the steel industry is on record repeatedly with its many programs dealing with recycling of ferrous scrap. The steel industry has posted advertisements and public utterances by its leaders that it will accept and recycle all the tin cans and other metallic waste generated by the American populace; the missing ingredient is not supply but rather such factors as technologies to separate the metals from the waste stream and lower freight rates. The technologies and freight rates are cost factors--the material can be separated by magnets, the scrap can move at the high rates--what is NOT the issue is supply. There are available metallics in more than sufficient quantities to be melted.

That there is no shortage of scrap is evident by the lack of recent action by the steel and foundry industries in areas where actions would be louder than words. For example, no mention is heard from those industries in the proposed foreign sale of 20 Victory ships for breakwater purposes from the reserve fleet instead of waiting to allow these ships to be scrapped for the 125,000 tons of the fine scrap available in those hulks. How can there be a scrap shortage when neither the steel industry nor the Department of Commerce and its Maritime Administration are striving to stop such a sale? How can there be a shortage of ferrous scrap when domestic steel mills are selling for export the home scrap which they generate within their mills and the semi-finished steel which they produce. There certainly is something less than a shortage when American steel mills find so much scrap available they become sellers of scrap iron for export, in many instances to those very countries which they allege are creating "abnormal demands". How can there be a shortage when steel mills and foundries are cancelling orders--orders which as was noted previously are only for 30 days duration--cancelling orders when allegedly there is this critical need for material? How can there be a shortage when mills are not "in the market" even though scrap prices have fallen and continue to fall on a weekly basis?

Apart from the various policy considerations just outlined which far outweigh any necessity for export controls in the ferrous scrap industry, the Institute of Scrap Iron and Steel has a number of specific objections to the proposed legislation.

Price control as suggested in the term "stable prices" is nowhere defined. The absence of a definition of "stable prices" is understandable simply because stability demands a concept of midpoint.

A price can be as stable at \$60 per ton as it can be at \$30 per ton. If price stability means simply around some mid-point, the Bill provides no insight into the propriety of a potential range of bases. Moreover, the Bill would be subject to legal challenge without some indication of the concept of "stability".

The most efficient means to approach price stability is volume stability. If the consumers will buy on a continuous basis such that supply requirements do not fluctuate in the millions of tons annually, it will result in more stable prices. If processors and collectors knew that in 1973, 41.5 million tons of ferrous scrap would be bought for domestic use, prices would be far more stable than if the demand could be 36 or 45 million tons. This industry has never been told of the buying plans of domestic mills sufficiently in advance to meet the supply needs. In fact, mills and foundries continue to purchase on a thirty day basis. If stable prices are legislated, then it is essential that stable purchases likewise become part of the law.

The term "priority" in the proposed legislation is also troublesome, both as a concept, since no theoretical basis for priority has been established, and as a practical matter since the criteria for such priority are nowhere to be found. Certainly the intent cannot be that all American scrap iron must first be offered to domestic consumers for sale and only when no interest is expressed by them can foreign orders be considered. Certainly, also it cannot be envisioned that American buyers of a commodity in great supply can dictate world prices for the commodity by insisting on priorities to limit world trade.

For example, Battelle Memorial Institute has completed a study for the Environmental Protection Agency dealing with increased markets for recyclable materials. In the report, Battelle found an inventory of scrap iron in this nation in 1969 in excess of 750 million tons. That inventory represents more than 15 years worth of scrap iron consumption--BOTH DOMESTIC AND EXPORT--at the high now being recorded. There cannot be a shortage or anything approaching a situation that requires, much less supports, the possibility of priorities of any type. In addition, Battelle reported that only 60% of the newly available scrap iron is being recycled so that this massive inventory is being added to at a huge rate every year. The concept of priority would permit mills and foundries to be even less responsive in their buying habits, knowing that they are insulated from the consequences of their actions by governmental intervention in the market.

The third question deals with the term "inflationary impact". This is undoubtedly the most widely misunderstood term in this entire situation. Inflation is not a sudden price change in a commodity that has long exhibited upward/downward price movements as a natural consequence of the free market. Just as deflation is not a charge when prices are low, and certainly the steel industry has not suggested price supports for upward movement of scrap prices at low levels, so also must the high prices of short duration be recognized for what they are--natural market forces at work. This is not inflation--it is simply price movement.

The impact of the recent price movement is likewise clearly not inflationary since prices of scrap and prices of steel are not in the least related as is demonstrated in the attached charts. Thus, inflationary impact needs definition.

#### IV. The Alternatives to Export Control

The foregoing criticism of H.R. 5769 in no way implies that the scrap iron and steel industry is satisfied with the present status of the market. On the contrary, the Institute believes specific governmental incentives for increased scrap consumption to be essential. Earlier this week, I presented a specific proposal to the House Ways and Means Committee which would provide a tax incentive for the use of recycled solid waste to offset in part the competitive advantage now enjoyed by virgin ore as the result of such tax benefits as depletion, capital gains from ore royalties, and special exploration and development deductions. A copy of my statement is attached.

In addition, present discrimination in railroad freight rates, against scrap iron and steel vis-a-vis virgin ore, must be eliminated. The Institute is continuing to press the removal of this discrimination before the Interstate Commerce Commission.

The position enunciated today by the ferrous scrap processing industry was never better stated than by Mr. E. F. Andrews, Allegheny Ludlum Industries, Inc., and at the time, Chairman, Committee on Critical Material Supply, American Iron and Steel Institute, who said on May 24, 1972 that:

"While we have been taking the government to task for permitting excessive exporting of critical materials, this industry is not without some responsibility. The scrap industry has accused us in past years of refusing to purchase material when it was at very low cost and in plentiful supply due to low operating rates in our industry. It is only natural that, as materials backed up in substantial quantities in processors' yards, they turned to the inviting foreign markets. A restudy and reordering of our industry's investment policies may be needed. In this way, perhaps we can make a contribution to the reduction in the rate of outflow of critical materials and in a lessening in the economic swings, price-wise, on such materials."

That re-study is the answer, not legislation to control scrap exports.

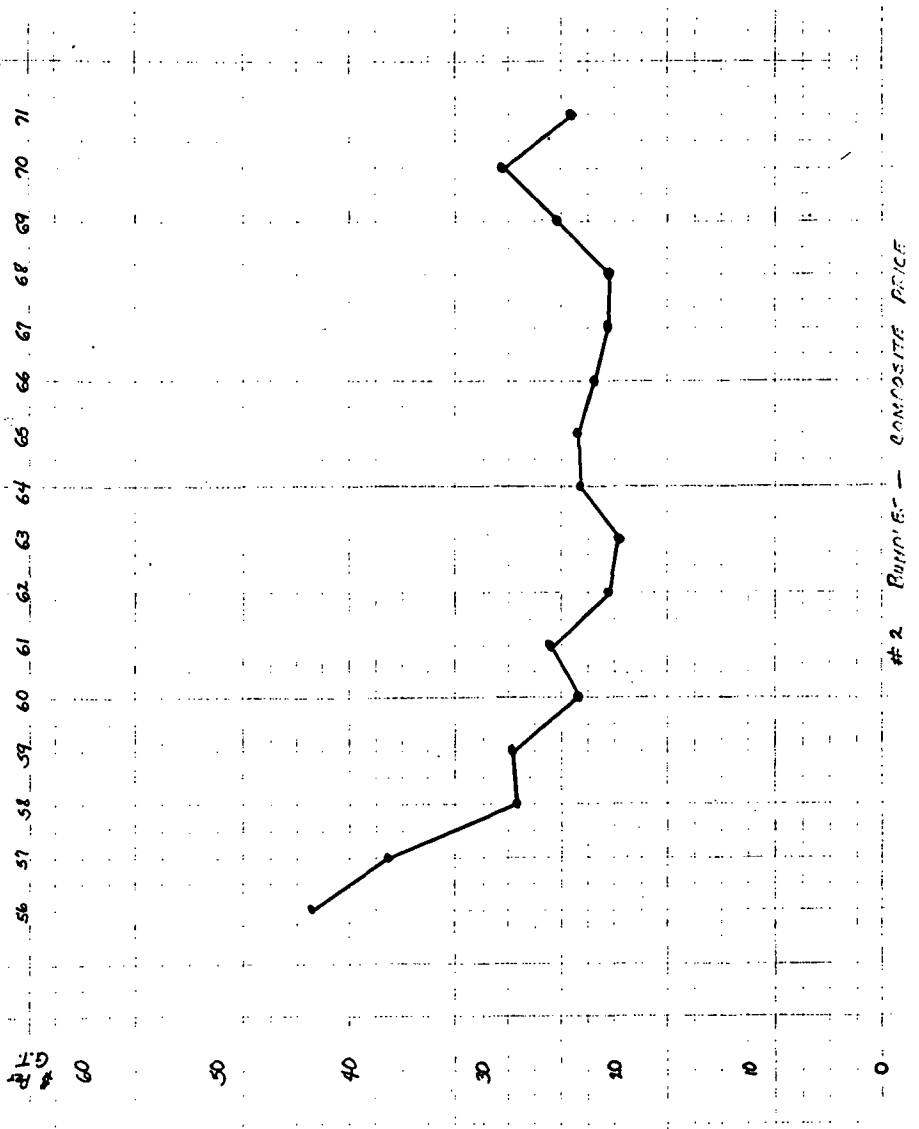
Thank you, Mr. Chairman and members of the Subcommittee.  
I'll be happy to answer any questions of the Subcommittee.



## Attachment I

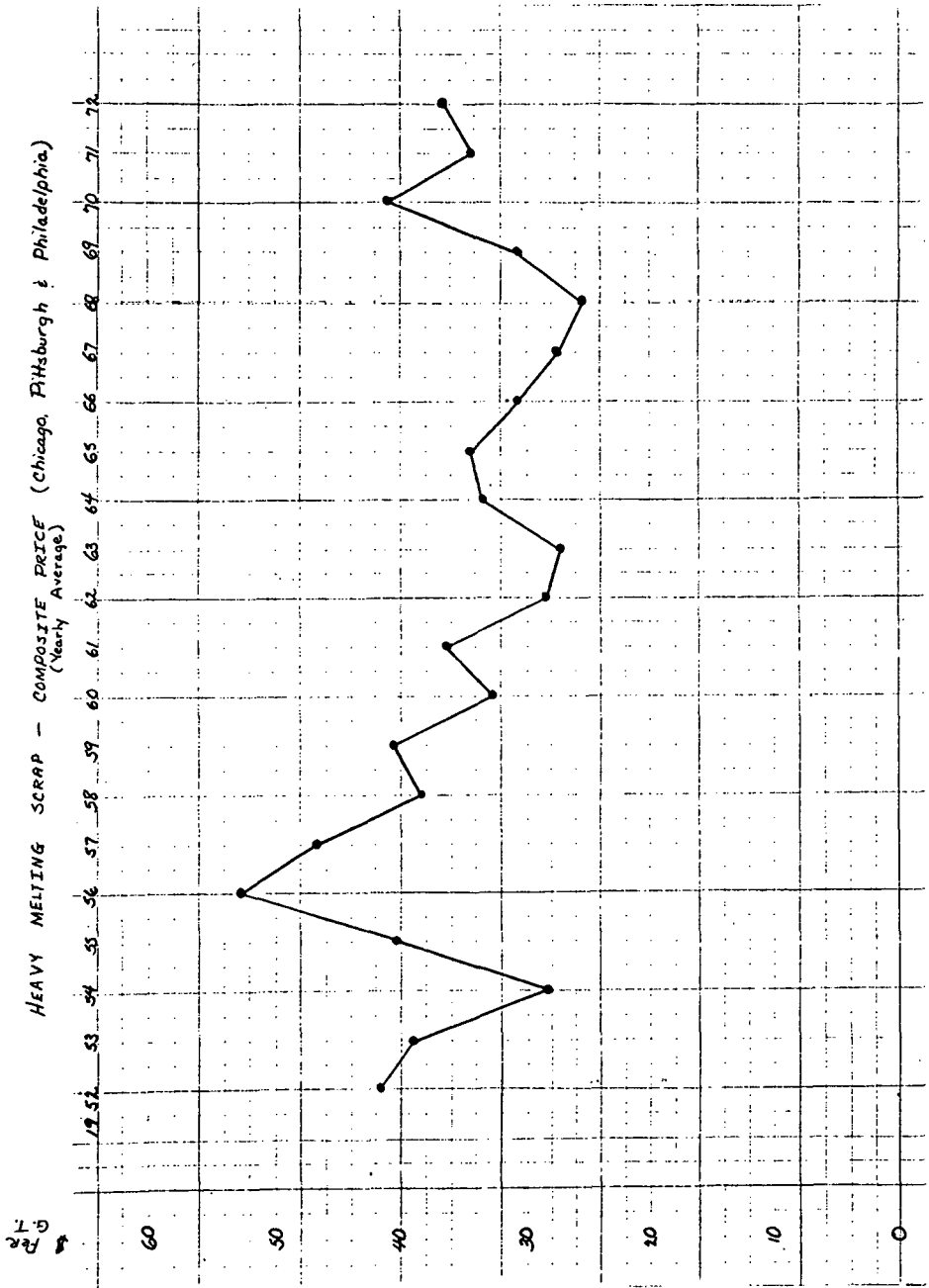
NO. 2 BUNDLES - COMPOSITE PRICE (CHICAGO, PITTSBURGH AND PHILADELPHIA)  
In Dollars Per Gross Ton. Compiled by Iron Age from weekly quotations

Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1972	23.84	24.59	24.52	25.06	25.44	25.17	24.83	25.02	25.10	26.27	26.16		
1971	26.12	26.58	24.32	25.84	24.17	23.42	23.12	23.24	23.42	22.25	21.04	21.06	23.55
1970	27.83	34.02	32.93	29.42	34.56	31.30	28.08	27.77	27.75	25.50	22.43	23.17	28.64
1969	22.42	22.75	21.07	22.75	23.17	23.50	24.75	26.37	24.88	25.00	27.05	23.90	24.09
1968	22.97	23.25	21.50	20.10	19.25	18.79	18.70	19.17	19.17	18.33	19.23	20.07	20.11
1967	20.69	20.91	20.58	20.17	19.73	19.63	19.66	20.25	20.42	19.99	20.60	22.00	20.42
1966	21.37	22.71	23.67	22.83	21.63	21.43	22.50	21.96	21.17	21.10	20.75	20.50	21.80
1965	25.00	24.71	24.76	22.58	24.70	23.00	23.01	22.37	21.08	19.91	20.57	20.03	22.83
1964	21.50	21.00	20.70	21.58	21.37	22.16	23.04	24.76	23.41	23.25	24.43	25.17	22.63
1963	20.42	21.25	21.00	21.17	20.75	18.77	18.66	18.37	19.29	19.25	18.83	19.83	19.85
1962	25.75	23.75	21.75	21.43	19.75	18.50	19.67	20.73	19.53	18.17	17.63	18.91	20.44
1961	22.08	20.82	27.42	26.42	24.17	24.61	24.17	24.67	26.33	25.50	23.17	22.30	24.72
1960	28.17	25.75	22.20	22.68	22.70	20.92	21.09	22.03	21.25	20.09	18.50	19.30	22.15
1959	23.21	30.33	28.27	23.34	23.33	27.50	26.92	27.50	28.20	30.50	31.23	28.36	27.90
1958	25.84	28.75	27.59	24.17	24.67	26.25	27.23	29.67	29.17	28.75	29.33	28.70	27.51
1957	47.43	44.04	39.58	34.75	38.07	45.84	44.89	43.17	37.13	27.80	24.67	24.20	37.63
1956	43.29	40.13	40.03	43.88	39.73	35.68	36.42	44.40	46.20	44.83	48.23	51.63	42.86
1955	26.33	27.46	28.83	27.17	29.67	28.07	30.46	35.17	35.77	36.13	35.73	41.30	31.34
1954	22.25	20.67	18.38	19.73	22.25	21.63	20.54	21.25	22.42	25.79	26.27	25.07	22.27
1953	42.83	42.25	40.68	37.13	31.72	33.61	36.83	35.89	31.19	28.07	29.50	25.63	34.61
1952	42.83	47.83	47.83	42.83	42.83	47.63	42.83	42.83	42.83	42.83	42.83	42.83	42.83
1951	42.46	42.69	42.17	42.17	42.17	42.17	42.17	42.17	42.17	42.33	42.83	42.83	42.36
1950	20.88	21.17	22.18	23.46	25.84	31.67	29.92	32.08	24.50	34.92	34.92	40.27	29.32
1949	39.62	34.75	28.90	19.61	18.50	17.38	15.77	17.52	21.00	21.69	24.25	23.15	23.81

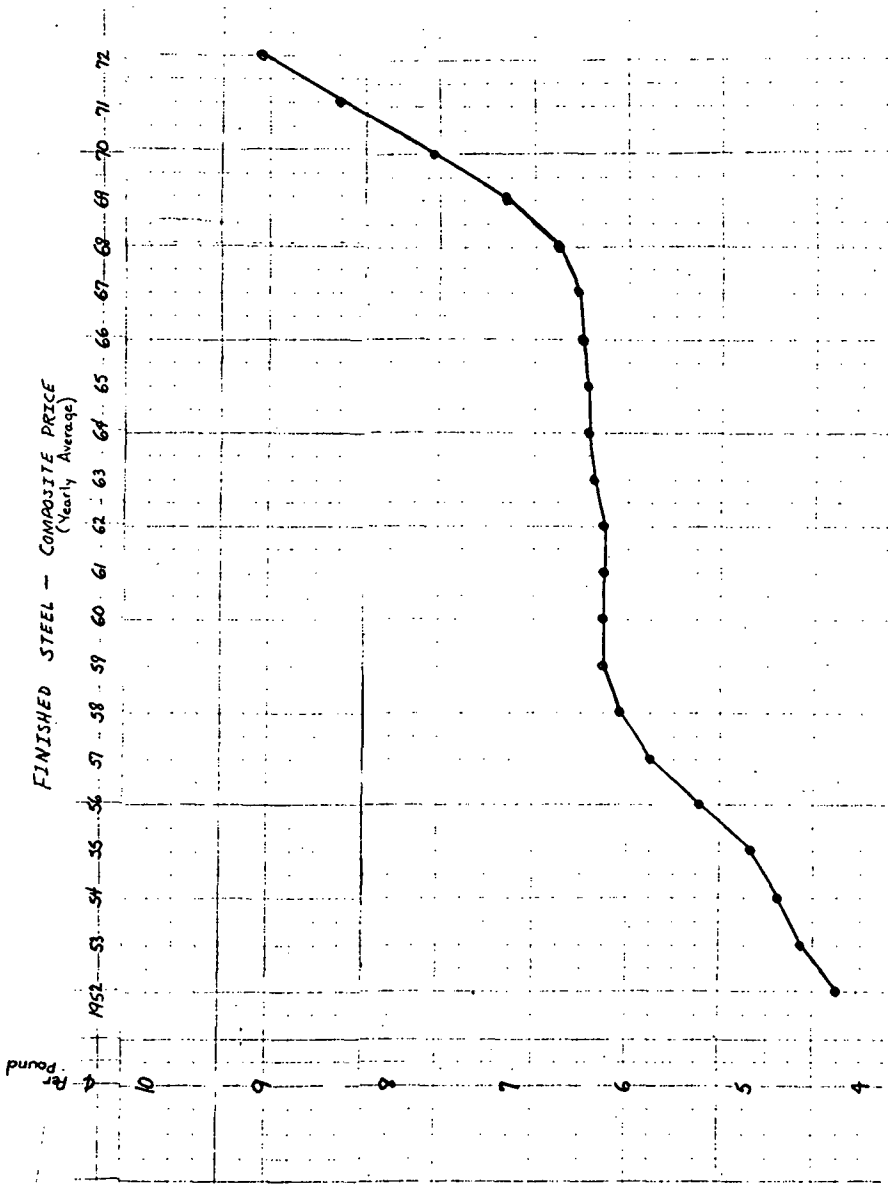


## Attachment II

HEAVY MELTING STEEL SCRAP — COMPOSITE PRICE (CHICAGO, PITTSBURGH AND PHILADELPHIA)												
In Dollars Per Gross Ton — Compiled by Iron Age from weekly quotations												
Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
1972	33.74	35.58	35.01	35.13	35.51	35.25	35.25	37.50	38.34	38.25	39.25	43.91
1971	40.67	40.17	36.57	34.09	34.23	32.75	32.17	32.10	33.17	34.42	30.64	30.06
1970	40.50	46.17	43.83	41.08	43.08	43.10	40.83	40.27	42.63	40.03	35.50	36.17
1969	27.25	28.00	26.70	26.67	29.25	29.43	30.17	32.42	35.83	34.00	33.50	36.76
1968	31.83	31.50	29.08	28.20	24.96	23.50	23.24	23.50	23.90	23.50	24.04	24.90
1967	27.83	27.66	28.00	27.17	26.50	26.50	26.84	27.65	27.52	27.10	28.41	29.84
1966	33.96	35.25	34.33	31.83	30.03	29.50	31.08	30.70	29.42	28.83	28.50	27.67
1965	38.17	36.92	37.20	37.54	36.67	34.50	34.60	33.43	30.67	29.58	30.97	32.08
1964	28.83	28.66	29.17	30.79	31.83	32.97	34.33	37.84	38.50	36.58	37.70	38.91
1963	27.17	27.92	27.58	28.30	28.67	25.83	25.33	27.01	28.83	26.75	26.50	27.50
1962	37.41	35.33	31.91	30.30	25.83	24.70	26.25	27.36	26.16	24.17	23.58	25.83
1961	31.50	33.50	37.83	38.50	36.50	37.39	36.79	38.00	39.42	37.90	32.83	35.23
1960	41.83	39.77	33.67	33.42	32.90	31.25	31.29	32.23	31.92	29.67	28.33	29.17
1959	41.08	43.66	40.43	35.08	34.41	37.90	39.33	39.91	41.70	44.83	45.67	41.90
1958	33.88	37.17	36.58	32.73	33.50	35.40	38.25	42.08	43.10	42.66	41.70	39.90
1957	59.37	53.17	46.50	42.80	46.17	54.23	54.00	52.96	47.29	37.37	32.83	32.33
1956	52.33	46.75	49.43	54.88	51.17	45.08	46.42	56.10	58.58	56.80	61.67	64.58
1955	34.62	36.16	37.27	36.50	34.40	34.96	39.50	43.96	44.25	44.75	45.47	51.71
1954	28.66	25.91	23.83	25.38	27.79	27.88	26.87	28.33	29.71	32.75	33.40	32.46
1953	42.00	42.92	44.18	41.75	38.59	40.97	44.60	43.46	36.53	32.67	35.21	31.33
1952	42.00	42.00	42.00	42.00	42.00	41.37	40.10	42.00	42.00	42.00	42.00	41.79



FINISHED STEEL — COMPOSITE PRICE — In Cents Per Pound														Compiled by Iron Age			
	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average				
1912	9.66	9.59	9.58	9.58	9.55	9.55	9.58	9.55	9.58	9.62	9.58	9.63	9.61				
1913	9.72	9.65	9.64	9.65	9.62	9.62	9.65	9.62	9.65	9.67	9.67	9.67	9.64				
1914	9.78	9.73	9.73	9.73	9.73	9.73	9.73	9.73	9.73	9.73	9.73	9.73	9.73				
1915	9.82	9.78	9.78	9.78	9.78	9.78	9.78	9.78	9.78	9.78	9.78	9.78	9.78				
1916	9.86	9.82	9.82	9.82	9.82	9.82	9.82	9.82	9.82	9.82	9.82	9.82	9.82				
1917	9.90	9.86	9.86	9.86	9.86	9.86	9.86	9.86	9.86	9.86	9.86	9.86	9.86				
1918	9.94	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90	9.90				
1919	9.98	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94	9.94				
1920	10.02	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00	10.00				
1921	10.06	10.04	10.04	10.04	10.04	10.04	10.04	10.04	10.04	10.04	10.04	10.04	10.04				
1922	10.10	10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08	10.08				
1923	10.14	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12	10.12				
1924	10.18	10.16	10.16	10.16	10.16	10.16	10.16	10.16	10.16	10.16	10.16	10.16	10.16				
1925	10.22	10.20	10.20	10.20	10.20	10.20	10.20	10.20	10.20	10.20	10.20	10.20	10.20				
1926	10.26	10.24	10.24	10.24	10.24	10.24	10.24	10.24	10.24	10.24	10.24	10.24	10.24				
1927	10.30	10.28	10.28	10.28	10.28	10.28	10.28	10.28	10.28	10.28	10.28	10.28	10.28				
1928	10.34	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32	10.32				
1929	10.38	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36	10.36				
1930	10.42	10.40	10.40	10.40	10.40	10.40	10.40	10.40	10.40	10.40	10.40	10.40	10.40				
1931	10.46	10.44	10.44	10.44	10.44	10.44	10.44	10.44	10.44	10.44	10.44	10.44	10.44				
1932	10.50	10.48	10.48	10.48	10.48	10.48	10.48	10.48	10.48	10.48	10.48	10.48	10.48				
1933	10.54	10.52	10.52	10.52	10.52	10.52	10.52	10.52	10.52	10.52	10.52	10.52	10.52				
1934	10.58	10.56	10.56	10.56	10.56	10.56	10.56	10.56	10.56	10.56	10.56	10.56	10.56				
1935	10.62	10.60	10.60	10.60	10.60	10.60	10.60	10.60	10.60	10.60	10.60	10.60	10.60				
1936	10.66	10.64	10.64	10.64	10.64	10.64	10.64	10.64	10.64	10.64	10.64	10.64	10.64				
1937	10.70	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68	10.68				
1938	10.74	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72	10.72				
1939	10.78	10.76	10.76	10.76	10.76	10.76	10.76	10.76	10.76	10.76	10.76	10.76	10.76				
1940	10.82	10.80	10.80	10.80	10.80	10.80	10.80	10.80	10.80	10.80	10.80	10.80	10.80				
1941	10.86	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84	10.84				
1942	10.90	10.88	10.88	10.88	10.88	10.88	10.88	10.88	10.88	10.88	10.88	10.88	10.88				
1943	10.94	10.92	10.92	10.92	10.92	10.92	10.92	10.92	10.92	10.92	10.92	10.92	10.92				
1944	10.98	10.96	10.96	10.96	10.96	10.96	10.96	10.96	10.96	10.96	10.96	10.96	10.96				
1945	11.02	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00	11.00				
1946	11.06	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04	11.04				
1947	11.10	11.08	11.08	11.08	11.08	11.08	11.08	11.08	11.08	11.08	11.08	11.08	11.08				
1948	11.14	11.12	11.12	11.12	11.12	11.12	11.12	11.12	11.12	11.12	11.12	11.12	11.12				
1949	11.18	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16	11.16				
1950	11.22	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20	11.20				
1951	11.26	11.24	11.24	11.24	11.24	11.24	11.24	11.24	11.24	11.24	11.24	11.24	11.24				
1952	11.30	11.28	11.28	11.28	11.28	11.28	11.28	11.28	11.28	11.28	11.28	11.28	11.28				
1953	11.34	11.32	11.32	11.32	11.32	11.32	11.32	11.32	11.32	11.32	11.32	11.32	11.32				
1954	11.38	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36	11.36				
1955	11.42	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40	11.40				
1956	11.46	11.44	11.44	11.44	11.44	11.44	11.44	11.44	11.44	11.44	11.44	11.44	11.44				
1957	11.50	11.48	11.48	11.48	11.48	11.48	11.48	11.48	11.48	11.48	11.48	11.48	11.48				
1958	11.54	11.52	11.52	11.52	11.52	11.52	11.52	11.52	11.52	11.52	11.52	11.52	11.52				
1959	11.58	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56	11.56				
1960	11.62	11.60	11.60	11.60	11.60	11.60	11.60	11.60	11.60	11.60	11.60	11.60	11.60				
1961	11.66	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64	11.64				
1962	11.70	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68	11.68				
1963	11.74	11.72	11.72	11.72	11.72	11.72	11.72	11.72	11.72	11.72	11.72	11.72	11.72				
1964	11.78	11.76	11.76	11.76	11.76	11.76	11.76	11.76	11.76	11.76	11.76	11.76	11.76				
1965	11.82	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80	11.80				
1966	11.86	11.84	11.84	11.84	11.84	11.84	11.84	11.84	11.84	11.84	11.84	11.84	11.84				
1967	11.90	11.88	11.88	11.88	11.88	11.88	11.88	11.88	11.88	11.88	11.88	11.88	11.88				
1968	11.94	11.92	11.92	11.92	11.92	11.92	11.92	11.92	11.92	11.92	11.92	11.92	11.92				
1969	11.98	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96	11.96				
1970	12.02	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00	12.00				
1971	12.06	12.04	12.04	12.04	12.04	12.04	12.04	12.04	12.04	12.04	12.04	12.04	12.04				
1972	12.10	12.08	12.08	12.08	12.08	12.08	12.08	12.08	12.08	12.08	12.08	12.08	12.08				
1973	12.14	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12	12.12				
1974	12.18	12.16	12.16	12.16	12.16	12.16	12.16	12.16	12.16	12.16	12.16	12.16	12.16				
1975	12.22	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20	12.20				
1976	12.26	12.24	12.24	12.24	12.24	12.24	12.24	12.24	12.24	12.24	12.24	12.24	12.24				
1977	12.30	12.28	12.28	12.28	12.28	12.28	12.28	12.28	12.28	12.28	12.28	12.28	12.28				
1978	12.34	12.32	12.32	12.32	12.32	12.32	12.32	12.32	12.32	12.32	12.32	12.32	12.32				
1979	12.38	12.36	12.36	12.36	12.36	12.36	12.36	12.36	12.36	12.36	12.36	12.36	12.36				
1980	12.42	12.40	12.40	12.40	12.40	12.40	12.40	12.40	12.40	12.40	12.40	12.40	12.40				
1981	12.46	12.44	12.44	12.44	12.44	12.44	12.44	12.44	12.44	12.44	12.44	12.44	12.44				
1982	12.50	12.48	12.48	12.48	12.48	12.48	12.48	12.48	12.48	12.48	12.48	12.48	12.48				
1983	12.54	12.52	12.52	12.52	12.52	12.52	12.52	12.52	12.52	12.52	12.52	12.52	12.52				
1984	12.58	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56	12.56				
1985	12.62	12.60	12.60	12.60	12.60	12.60	12.60	12.60	12.60	12.60	12.60	12.60	12.60				
1986	12.66	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64	12.64				
1987	12.70	12.68	12.68	12.68	12.68	12.68	12.68	12.68	12.68	12.68	12.68	12.68	12.68				
1988	12.74	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72	12.72				
1989	12.78	12.76	12.76	12.76	12.76	12.76	12.76	12.76	12.76	12.76	12.76	12.76	12.76				
1990	12.82	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80	12.80				
1991	12.86	12.84	12.84	12.84	12.84	12.84	12.84	12.84	12.84	12.84	12.84	12.84	12.84				
1992	12.90	12.88	12.88	12.88	12.88	12.88	12.88	12.88	12.88	12.88	12.88	12.88	12.88				
1993	12.94	12.92	12.92	12.92	12.92	12.92	12.92	12.92	12.92	12.92	12.92	12.92	12.92				
1994	12.98	12.96	12.96	12.96	12.96	12.96	12.96	12.96	12.96	12.96	12.96	12.96	12.96				
1995	13.02	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00	13.00				
1996	13.06	13.04	13.04	13.04	13.04	13.04	13.04	13.04	13.04	13.04	13.04	13.04	13.04				
1997	13.10	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08	13.08				
1998	13.14	13.12	13.12	13.12	13.12												



## Attachment IV

**Institute of Scrap Iron  
and Steel, Inc.**

1720 M Street, N.W.  
 Washington, D.C. 20036  
 202-462-1000

Fred Begman, President  
 Bernard L. Lanza, First Vice President  
 Joseph A. Schaefer, Second Vice President  
 William A. Jones, Treasurer  
 William C. Carter, Secretary  
 Herbert Cohen, Executive Director

February 5, 1973

Mr. Gary M. Cook  
 Deputy Assistant Secretary and Acting Director  
 Bureau of Competitive Assessments and Business Policy  
 United States Department of Commerce  
 Washington, D.C. 20230

Dear Mr. Cook...

at the request of your Messrs. James Owens and  
 Wilson Sweeney, the Institute of Scrap Iron and Steel, Inc., the  
 national trade association comprised of 1300 member firms  
 representing the ferrous scrap processing industry, presents this  
 letter of analysis of the ferrous scrap situation at present. The  
 letter will demonstrate that: (1) the supply of ferrous scrap is  
 sufficient to meet any conceivable domestic and foreign demand in  
 the foreseeable future; (2) the foreign demand expected is certainly  
 not "abnormal"; and (3) the price of ferrous scrap exhibits no  
 long-term inflationary characteristics.

As you will readily recognize, the letter responds in the framework  
 of the "short supply control" segment of the Export Control Act. I  
 will follow the chronological sequence presented above to establish  
 the facts as we see them.

First, however, it is proper to look at present conditions. The  
 ferrous consuming industry apparently feels that current prices for  
 ferrous scrap are "too high". As a means of controlling the potential  
 impact on their financial results, the consumers ask that ferrous  
 scrap exports be limited to a predetermined allowable tonnage. However,  
 since the Export Control Act does not permit control of exports to  
 provide a subsidy to domestic industry nor to protect domestic  
 industry from normal economic conditions, the important general  
 questions are, how much scrap is required by the domestic consumers  
 and can the supplying industry provide that volume?

Domestic purchasing of ferrous scrap in 1972 is estimated to approach 40 million net tons\* and the export market absorbed approximately 7 million additional net tons that year. The total demand during 1972, thus, was approximately 47 million net tons.

We understand that the domestic consumers anticipate they will need approximately 41 million net tons of ferrous scrap during 1973 and forecasts have been made that as much as 12 million net tons could be exported during the current year. Assuming, for the moment, that these figures are correct, the obvious question would be, can the ferrous scrap processing industry meet this anticipated demand of 53 million net tons during 1973?

#### DOMESTIC SUPPLY

The productive capacity of the domestic scrap processing industry is much greater than present utilization. During 1969, the last record demand year, a total of 45.9 million net tons of ferrous scrap was processed and sold. This industry did not then have to resort to 7-day weeks and/or 3-shift days to meet that record demand. This industry has added substantially to its capacity since that time (witness the introduction of 25 to 30 shredders alone since 1970).

Ferrous scrap is available to anyone who wants to purchase it today and ferrous scrap will be available to anyone who wants to purchase it in the foreseeable future. NO STEEL MILL OR FOUNDRY THAT HAS SOUGHT FERROUS SCRAP IN THE MARKETPLACE HAS BEEN DENIED SCRAP BECAUSE THE MATERIAL WAS UNAVAILABLE. What might have happened is that the order was not accepted because the price offered was not in keeping with the market at the time.

---

\*Net or short tons are 2,000 pounds in weight; gross or long tons are 2,240 pounds in weight. Thus, in any given volume, there are more net than gross tons. All calculations in this letter are, however, expressed on the larger net ton basis.



This distinction between shortages, which suggest unavailability, and commodity pricing, is a critical difference. What the consumers are asking for are price controls in the guise of export controls for an alleged commodity shortage, when, in reality, there is NO shortage whatsoever.

The reason for recent increases in price, which is a typical reaction in the short run price movement of ferrous scrap, a freely traded commodity (see attached historical chart of scrap prices), is the less-than-responsive buying practices of the consumers. Steel mills and foundries have historically avoided purchasing scrap at low prices, waiting until inventories were virtually depleted and then each returning to the marketplace at the same time for the reduced supply that results from long buying absences.

A brief review of the scrap cycle will help explain this phenomenon. The movement of obsolete scrap into scrap processing facilities for preparation and for further recycling by mills and foundries starts with the supplier to the processing industry. (Prompt industrial scrap is not a collection problem since it moves in the normal course of events, though in times of growing economic activity, such as now being experienced, the AMOUNT of such scrap increases in direct proportion to the additional steel sold).

The collectors of obsolete metallics find that the vagaries of steel demand cause them to be in a very marginal business and many of them enter and leave the supply phase as the demand for processed scrap fluctuates. Thus, when demand for scrap falls (as for example from the 1969 volume of 45.9 million net tons to the 1971 total of 38.9 million net tons) many of these collectors find alternative sources of income. It is not a simple operation to "turn on" these sources when the steel mills and foundries again find it expedient to purchase scrap; such a re-vitalization of the supply system takes time and it occurs only at price stimulations which encourage re-entry into the cycle by these aforementioned collectors. The collector will demand, and he can get, these higher prices for his efforts since he, the processors and the consumers all know that the demand levels will NOT continue and, thus, the collector must be rewarded for taking the risk at that moment.

Mills and foundries have historically made this elementary buying error. They internally have found reason to invest funds in other than inventory TO THEIR OWN DETRIMENT and have then resorted to government appeal for export controls when the fallacy of their ways "catches up with them", as it must in the normal course of events.

As business improves, more industrial scrap results (though with a necessary lag to reflect the use of the increased volumes of steel) and more obsolete scrap will come on line (as the collectors return to the supply stream), thus the need for added tonnages can be easily met, but at higher prices than would have prevailed had the purchasing been conducted along more consistent methods and more rational lines. (In fact, random telephonic conversations with our members indicate that remote obsolete scrap, which had not moved for long periods of time, is now being directed to market. This phenomenon is identical with past experience and is a normal expectation). The alleged shortage is non-existent; rather what exists is a temporary dislocation of material supply from its demand since purchasing habits preclude the smooth flow of the scrap cycle.

Moreover, the supply/demand conditions nationally do not reflect the conditions at any one point of geography. For example, some steel mills in this country today are sellers of scrap iron themselves, reflecting the absence of sufficient demand for their own scrap materials. In fact, some of this home scrap is even being exported.

To summarize, the mills and foundries have not purchased with any concept of the need to preserve a viable supply system; rather they buy to meet crises and as such they have created a crisis dominated marketplace. The consumers petition government agencies when prices reach higher levels resulting from their refusal to buy in other than minimal amounts when the prices are low. No commodity supply system in the world can adjust to these erratic demands other than by the pricing mechanism and that is what the present situation is all about.

Steel industry buying practices were never better demonstrated than during the artificially imposed "embargo" on the West Coast during the last longshoremen's strike. That strike, lasting for a total of 134 days during the period of July 1, 1971 through October 7, 1971, and continuing from January 19, 1972 through February 20, 1972, effectively terminated scrap exports along the entire coast. No additional domestic purchasing occurred, even though prices fell drastically, reflecting the loss of the export market.

The proof that embargoes are not the answer could not be made more effectively than that record by the mills. The mills today only want lower prices; during the strike they were not interested in scrap at any price. It is obvious, thus, that the request for export controls is protectionist inclined and ignores the root of the present condition.

The ferrous scrap processing industry can produce 55 million net tons of ferrous scrap during 1973 if that is what is needed to supply both the domestic and foreign markets. The ferrous scrap processing industry will, undoubtedly, be asked to supply less than that amount in the near future as the steel and foundry industries reduce their demand in the next economic adjustment.

There is no shortage of supply; there never has been. No mill has ever failed to obtain the needed ferrous scrap (even during wartime) and no mill today can show that it is unable to obtain ferrous scrap. Thus, the first criterion of the Export Control Act has not been met.

#### FOREIGN DEMAND

To help meet the exigencies of the marketplace in the United States, the ferrous scrap processing industry, especially those firms located on the Coasts, found it critical to establish foreign markets. High domestic freight rates all but eliminated the movement of ferrous materials from New England to the American steel industry and the output of ferrous metallics on the West Coast is two to three times the possible scrap consumption capacity that exists there. Were it not for the action of this industry in

developing these foreign markets, the Coastal areas would now be wallowing in their own metallic effluents.

The positive impact of these exports on the American balance of payments is obvious; especially when contrasted with the negative impact of the import of iron ore which is the direct competitor of ferrous scrap in the steelmaking process.

The rate of foreign demand has also fluctuated reflecting world conditions and the growth of "emerging" nations from dependence on, to independence of, the so-called "mature" nations. These nations purchase scrap to make new steel and they do it so that they too can operate profitably while serving their respective national needs.

The major foreign buying to date, and upon which all the forecasts have been based, is the choice of one country to accept a major volume of American ferrous scrap to meet its current needs. The export market is not like the domestic market in that certain factors take on critical significance here that do not attain the same importance in the domestic area. For example, the existence of ships for international movement is critical and the foreign buyer must commit himself much farther in advance to insure that ships will be available when he needs them. This stimulates longer term commitments from foreign sources and thus demand is more apparent in advance than in the domestic market.

However, the question is the "normalcy" of this demand. Past history shows that the demand ranges from very low tonnages up to the 10.6 million net tons recorded in 1970. Thus, even if the export level should attain any of the forecast estimates, there is nothing whatsoever "abnormal" about repeating a figure reached only two years ago, especially in light of the growth of available scrap and the increase in domestic steel production as each year passes.

Thus, the foreign demand, even at the "high" forecast levels, is not abnormal. Foreign demand reasonably (or unreasonably) expected during 1973 is certainly normal and the second criterion of the Export Control Act is, therefore, not met either.

INFLATIONARY PRESSURES

The key to supporting an inflationary charge is a long-term upward trend of prices. This condition simply does not exist in the case of ferrous scrap. In fact, the historical price performance shows a contrary effect; if anything, the price of ferrous scrap exhibits almost an unheard of stability around a long-term equilibrium price. There are movements upward and downward, but the long-term trend is virtually a "flat" price.

This price performance contrasts sharply with the price of finished steel, which has exhibited a unidirectional upward movement, as have the prices of virtually all inputs to the steelmaking process but the price of ferrous scrap. There is no inflationary impact in ferrous scrap prices.

What the consumers are confusing with an inflationary trend is the aforementioned price rise, of a short-term nature, that merely reflects the time lag needed to equate supply and demand. This is not a new phenomenon; it is an occurrence that has long marked the scrap price area (a comparative chart is attached).

Thus, the third criterion is likewise not met. Inflationary pressures do not have any basis as a finding in the ferrous scrap market.

\* \* \* \*

As a summary it is important to note that present market prices are the direct result of mill and foundry buying practices. The consumers have no justification in coming to the Federal Government and asking that another industry (the scrap processors) and its foreign customers be made to pay for the error of their ways, especially when these results could have been predicted since identical conditions appeared in the recent past. The Export Control Act is not a price control statute; that Act specifies particular criteria that need be proven, and none of these criteria can be found in today's market. Accordingly, any plea to restrict the free trade of ferrous scrap cannot be entertained as a legitimate function of government.

We appreciate your willingness to consider these facts of the ferrous scrap market situation and stand ready to meet with you at your convenience to explore them further if you feel such is in order.

Sincerely yours,

A handwritten signature in dark ink, appearing to read 'Herschel Cutler', written in a cursive style.

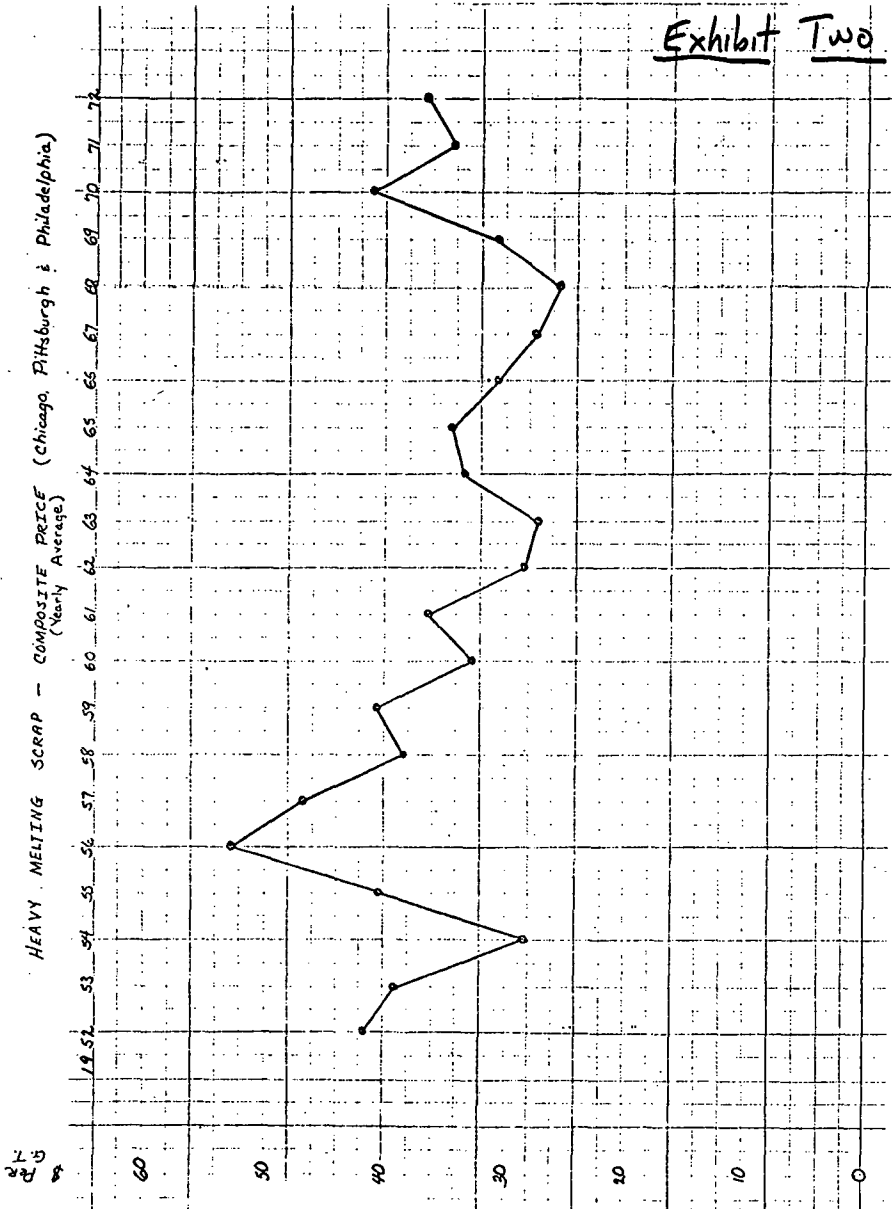
Herschel Cutler

ffk

Enclosure

Exhibit One

HEAVY MELTING STEEL SCRAP — COMPOSITE PRICE (CHICAGO, PITTSBURGH AND PHILADELPHIA) In Dollars Per Gross Ton — Compiled by Iron Age from weekly quotations													
Year	Jan.	Feb.	March	April	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.	Average
1922	33.74	35.58	35.08	35.23	35.51	37.25	32.27	32.20	31.34	33.25	33.25	43.71	36.86
1921	40.67	40.17	36.57	34.09	34.33	32.75	32.17	32.40	31.77	32.42	30.68	30.66	34.09
1920	46.50	46.17	43.83	41.08	43.18	43.10	40.13	40.27	41.63	40.68	35.50	36.17	41.08
1919	27.75	26.00	26.70	26.40	27.25	28.00	28.17	27.42	25.81	24.00	23.50	26.76	26.83
1918	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83
1917	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83	21.83
1916	31.66	35.25	34.31	31.03	30.03	29.50	31.00	30.70	29.42	28.83	28.50	27.67	30.87
1915	30.17	30.02	31.70	31.64	30.67	34.50	34.50	33.43	30.07	29.50	30.37	32.08	34.35
1914	20.63	20.60	22.17	20.78	21.03	22.03	24.33	24.33	20.50	20.50	20.50	21.50	21.11
1913	21.17	27.02	27.02	27.02	28.02	29.02	29.02	29.02	29.02	29.02	29.02	29.02	29.02
1912	37.41	35.30	37.83	36.50	36.50	37.38	36.75	37.38	36.16	34.17	26.50	27.50	33.67
1911	41.43	38.77	37.07	37.40	38.40	38.40	38.40	38.40	38.40	38.40	38.40	38.40	38.40
1910	33.03	37.17	36.58	32.73	33.20	35.40	38.25	40.00	41.70	44.03	45.67	41.60	40.49
1909	50.37	53.17	43.50	42.83	46.17	54.74	54.66	52.50	47.29	37.37	32.03	30.33	46.75
1908	50.37	48.75	46.43	44.86	51.17	45.00	46.47	50.10	50.58	50.00	51.07	51.71	48.19
1907	34.62	36.16	37.27	36.50	34.00	34.90	39.50	43.50	44.55	44.75	45.47	51.71	40.19
1906	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51	52.51
1905	47.00	42.85	42.18	41.75	35.59	40.97	44.60	43.46	56.53	32.07	35.21	31.33	39.52
1904	47.00	42.00	42.00	42.00	42.00	41.37	40.10	42.00	42.00	42.00	42.00	42.00	41.74

Exhibit Two



Attachment V

STATEMENT OF FRED BERMAN, PRESIDENT  
OF THE INSTITUTE OF SCRAP IRON AND  
STEEL, INC., BEFORE THE WAYS AND MEANS  
COMMITTEE OF THE HOUSE OF REPRESENTA-  
TIVES

March 20, 1973

My name is Fred Berman. I appear as President of the Institute of Scrap Iron and Steel, Inc., a national trade association representing approximately 1,250 processors, brokers and dealers in the metallic scrap processing industry as well as firms related to the scrap processing industry. Institute members process, ship or otherwise handle approximately 90%-95% of the iron and steel scrap purchased in the United States and handle equally impressive percentages of the many other metallic solid waste materials which are recycled in our economy. I am also President of Berman Bros. Iron & Metal Co., Inc., headquartered in Birmingham, Alabama, a scrap processing firm specializing in the preparation of ferrous metallics for recycling into new iron and steel products. Berman Bros. also conducts a non-ferrous business and, through an affiliate, operate an aluminum smelter.

Accompanying me this morning is Dr. Herschel Cutler, Executive Director of the Institute. Dr. Cutler is a professional economist and is prepared to discuss our proposal in whatever detail this committee feels proper.

I stress, however, that though our corporate name sounds

as if we are limited to ferrous scrap materials, our interest and the representation of our members extends through the entire spectrum of recyclable metallics.

A series of bills dealing with the provision of various forms of incentives to recycle solid waste have been introduced in both the 92nd and 93rd Congresses. To the extent that each of these bills is based upon the concept of expanded consumption of secondary products by means of a tax incentive, the Institute fully supports the theories involved.

The subject of recycling, however, must be recognized as but one aspect of the overall solid waste problem that must be met. For example, even if all the recyclable materials were recovered and consumed, huge volumes of non-recoverable materials still would remain and their disposal would continue to pose a national problem. Thus, even if all the metals, glass, and paper are removed from the solid waste stream and recycled, much material will remain; and even though a significant portion of the remaining volume could be utilized in such processes as combustion for electric generation, volumes of materials will remain that cannot be recycled. The only alternative for such tonnages is ecologically sound disposal--not recycling.

We deem it a privilege to appear here this morning to present our comments on a major facet of the problem of solid waste recycling; namely, the issue of the present tax provisions favoring the use of virgin metallics and hindering the necessary recycling of the competitive secondary items, and the proposal now before the Congress to offer an equivalent incentive for the use of recyclable solid waste.

Demonstrative of the overall solid waste crisis is the situation in iron and steel scrap. In this context it is also important to note that iron and steel scrap has long been the most extensively recycled solid waste material in terms of volume.

Steel can be produced from two and only two raw material sources--virgin iron ore in any of its many forms and scrap iron. There are no other sources of the needed iron units. Thus, all other things being equal, the more of either source used, the less is the market for the other. The substitutability of ore and scrap is a well-known metallurgical condition and, within the recognizable bounds of alternation, there is really no challenge to the substitutability premise.

In recent years, the relative market penetration of purchased scrap iron has experienced a general reduction and, as a result, solid metallic waste accumulations are growing, increasing pollution and continuing exploitation of limited natural mineral reserves and energy supplies.

One very obvious answer to these many severe problems is the use of more scrap iron in the steelmaking process. If more scrap were consumed, the solid waste piles would be reduced (abandoned junk autos would be much less of a difficulty) and, as the Environmental Protection Agency has stated, conservation of natural resources would occur: energy consumption would fall by 74%; water use would be reduced by 40%; air pollution effluent emissions would be decreased by 86%; similar reductions in consumer waste generated (105%) and in mineral waste accumulations (97%) would occur. Moreover, since almost one-third of the iron ore used must be imported--averaging more than one-half

35 million tons of purchased scrap. What is needed is to make the use of substantially more scrap iron and steel a profitable choice for the steel and foundry industries.

To accomplish this goal we suggest an incentive concept which provides economic reason to maintain the present consumption levels by all consumers and provides financial reason for as many of those consumers as possible (or new firms) to add to their consumption of secondary materials. Thus, the incentive must reward on two levels--the existing and the incremental--the now and the future.

It is economically inefficient, however, to compensate the present user for doing what otherwise would have been done without assurances that the public grant will be dedicated to a public purpose. For example, if a scrap consumer was presently using 100,000 tons of scrap annually and paid an average price for those materials of \$40 per ton, a 15% deduction granted as an incentive to increased scrap use could amount to a \$600,000 deduction. In the absence of some public requirement about how the deduction must be used, the incentive would not necessarily insure that more scrap will be used.

That is the key--more consumption--short of that, the incentive envisioned by legislation dealing with recyclable solid waste fails. The emphasis of any legislation, thus, should be on encouraging increased consumption.

Therefore, the Institute offers the following program:

1. A deduction, equal to the depletion rate on the competitive virgin material, should be provided for the increase in consumption of secondary materials over the base period volume, determined as the moving

billion dollars annually--a significant improvement in the U.S. balance of trade position would occur if scrap were used to replace ore. Yet, with all of the beneficial effects from greater use of scrap, the relative market share for purchased scrap iron is not encouraging.

To meet the problems outlined, we believe that a tax incentive of the type proposed in the various bills now before this committee is desirable. Our proposal is a modification of the concept contained in these bills and is based on two fundamental principles:

1. An incentive, to be effective, must induce a private action desired in the public interest that would not have occurred absent the incentive offered, and
2. To induce this action requires a benefit to individuals, firms or industries that is at least as great as the benefit of the alternative that otherwise would be utilized.

Profits have been low in the steel, foundry and refining industries, which are virtually the only markets for the processor of metallic scrap.\* As the chairman of the Public Affairs Committee of the American Iron and Steel Institute noted before this committee, profitability "has been a sad story in recent years."

We recognize the need for reasonable profitability for our customers since without the industry to consume the metallic solid waste, the problem of metallic effluents would be horrendous. We must not forget, for example, that the domestic ferrous scrap consuming industry already uses upwards of an annual average of

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\* A small, but significant, volume of ferrous scrap is utilized in copper precipitation activities.

average of the immediate prior five year period.

- (a) The deduction would be applied against the purchase price of the scrap bought for recycling by mills, foundries and refiners.
  - (b) The deduction would apply only to those secondary materials arising outside of the mills, foundries and refiners; thus, only purchased scrap, as contrasted with "home" scrap, would be eligible for the deduction. Home scrap is that material which is generated as part of the process and generally is re-used entirely within the mill, foundry or refinery. Since home scrap's subsequent use does not aid in reducing the solid metallic waste accumulation and since it is used generally in preference to purchased scrap, no deduction is in order.
2. A smaller deduction, equal to one-half of the depletion rate on the competitive virgin material, should be provided for the purchase of secondary materials up to, but not exceeding, the base period purchases established above.
- (a) A requirement should be included that this smaller deduction for present consumption be used for new investment in either melting capacity capable of increasing consumption of metallic secondary materials and the equivalent capacity in non-metallic recycling or in financially non-productive water and air pollution control devices, facilities

and equipment.

- (b) The deduction must be offset by provable investment within a fixed period of time (for example, three to five years) from the year in which the deduction is taken.
- (c) Failure to make such investments will result in recapture of the deduction in subsequent years as ordinary income.

To summarize this proposal:

All consumers who add to their consumption levels will gain a tax deduction equal to that enjoyed by users of the virgin materials, thus providing a direct offset which should make the choice of new material (virgin or scrap) closer to competitive reality than it is at present.

Present consumers of secondary materials will receive a tax deduction equal to one-half the depletion rate on the competitive virgin material that, to be enjoyed, must be used to invest in new melting capacity and/or pollution abatement. Failure to do so results in recapture of the deduction after a period of three to five years. This brings a measure of equity to the current situation and provides an incentive to continue using the current secondary material, while also providing a viable incentive to add new melting capacity.

Scrap-based recycling facilities will be encouraged since, to the extent that additional scrap volumes are consumed, such consumption will yield tax benefits to the buyer. In the long run, not only will day-to-day consumption be protected, but the investment in new scrap-based facilities will be sponsored which

can only lead to a lasting reduction in solid waste accumulations which threaten our ability to exist.

Any other tax incentives, in our opinion, would be unnecessary drains on the Treasury with limited or non-existent returns. There is certainly no need to extend new special amortization provisions to investments made by the scrap processing industry because processing capacity in this industry is already sorely underutilized.

We appreciate the opportunity to appear before you this morning, and I offer the services and resources of the Institute and its staff in your efforts to develop the most desirable tax incentive program possible in the interests of the nation. Specifically, the Institute has requested that a legislative proposal in accordance with these recommendations be prepared by counsel and will submit this proposal for the record before the close of these hearings.



Mr. REES. The next witness is Donald H. Workman, who is executive vice president of the Gray & Ductile Iron Founders' Society. He is speaking on behalf of the Cast Metals Federation. Mr. Workman.

**STATEMENT OF DONALD H. WORKMAN, EXECUTIVE VICE PRESIDENT, GRAY & DUCTILE IRON FOUNDERS' SOCIETY, ON BEHALF OF THE CAST METALS FEDERATION, CLEVELAND, OHIO**

Mr. WORKMAN. Thank you, Mr. Chairman. Thank you for permitting us to be a witness here this morning.

My name is Donald H. Workman. I am executive vice president, Gray & Ductile Iron Founders' Society, and I am representing the Cast Metals Federation, which also includes the Malleable Founders' Society and the Steel Founders' Society of America. Combined, these three societies represent the interests of the ferrous foundries in the United States which are predominantly small businesses.

You have a copy of my statement for the record, and I will try to eliminate a few statistics, in deference to time. They are not at the table with me, but I am happy to have behind me William Gates and James Wolfe of the International Molders & Allied Workers Union, and I have just been given a note that they request permission to submit a statement to this committee.

Mr. REES. Well, there is no objection from the committee members, it is so ordered.

Mr. WORKMAN. We also have Mr. Charles Sheehan, executive director, National Foundry Association, and Mr. Clyde Jenni of the Steel Founders' Society of America, and Mr. Dittis of the Cast Iron Pipe Research Association, and Byron Rogers of the Federation's Washington office. I am happy to have them with me.

The ferrous foundry industry consists of 2,120 companies, employing 235,000 workers, many of whom are of minority races. The industry annually ships over 18 million tons of castings valued at over \$8 billion. These castings are vital to industries—I know you are more familiar with the steel industry than foundries, but they are important to industries such as automobiles and trucks, railroads, machine tools, and general machinery, internal combustion engines, appliances, and scores of other metalworking applications.

The industry ranks sixth among all manufacturing industries, yet its visibility is low because castings serve as component parts for many thousand consumer and industrial products which touch our lives every day. For instance, there are over 600 pounds of ferrous castings in your automobile, including the engine, brakes, and other parts. The dome of our Capitol Building is a ferrous casting. The attached booklet further describes our industry, saving me and you, particularly, time.

In December 1972, members of the Cast Metals Federation reported a sudden spiraling trend in the price of iron and steel scrap, the principal raw material used in our melting furnaces—approximately 80 percent of our melting stocks. By January the price situation had worsened and warnings of scrap shortages were being heard.

On January 24, 1973, representatives of the steel mills and ferrous foundries met with the U.S. Department of Commerce to request officially a limitation on the presently uncontrolled export of this vital

resource. Because of the definitely inflationary aspects of the sharp increases in ferrous scrap prices, officials of the Cost of Living Council attended this meeting.

Iron and steel representatives at the meeting cited sharply increased domestic demand for steel mill products and ferrous castings, which, coupled with the then current rate of 10.7 million tons of scrap exports, would indicate a need for 53.5 million tons of purchased scrap for 1973, including our estimated 12 million tons of exports—an impossible task because the last severe scrap shortage in 1969-70 generated only 46 million tons versus the 53.5 million tons required this year. We officially asked the Department of Commerce to use its authority under the Export Administration Act to limit 1973 exports to 7 million tons.

It is apparent now that Japanese orders for ferrous scrap placed late in 1972 for their requirements for the first half of 1973 triggered the sudden rise in scrap prices in this country.

The Japanese and other nations have made it clear that they will import larger quantities of scrap in 1973. Exporters of scrap make no secret of the fact that scrap exports will take 12 million tons in 1973, including a 150 percent increase for Japan alone.

At the January 24 meeting, the Cast Metals Federation presented the results of a real fast survey of member ferrous foundries on both availability and price increases of scrap.

The figures below indicate the emergence of a more difficult-to-obtain situation, sharply increased prices since July 1, 1972, and it also indicates, roughly, a 14-percent across-the-board industry increase in scrap to be used this year versus last year :

	Gray and ductile foundries	Malleable foundries	Steel foundries
<b>A. Scrap:</b>			
Available.....	35	4	27
Difficult to obtain.....	43	8	29
Not available.....	1	0	2
Total.....	79	12	56
<b>B. Price increase since July 1, 1972 (percent):</b>			
Upper quartile.....	24.5	30	34.0
Median.....	19.7	25	26.0
Lower quartile.....	13.9	23	13.0
<b>C. Percent increased scrap use: 1973 versus 1972</b> .....	14.9	16.7	13.5

After the January 24 meeting at the Department of Commerce, scrap prices continued to rise and foundry grade scrap quality has deteriorated.

On February 21, 1973, 50 foundry executives again met with Department of Commerce and Cost of Living Council officials to urge the Department to license scrap exports to the 7-million-ton level requested earlier. Commerce cited a slight decline in ferrous scrap prices, but foundry executives did not get an answer to their question: "What will happen when the Japanese reenter the scrap market—in this quarter—to order their requirements for the second half of 1973?" We expect another surge in prices, and further shortages, especially on the west coast.

In conclusion, the ferrous industry has had a one-two punch with the need for substantial capital investment in nonproductive air pollu-

tion controls, plus even greater expenditures to meet OSHA requirements. The profit limitation of phase 2 and phase 3 stifle such capital investment and competition from other formed products and customer resistance sets realistic limits on passing on all the increased prices being paid for ferrous scrap. Increased prices for scrap alone adds 3 percent to foundry costs.

In view of the fact that the United States is now the only industrial nation in the free world permitting exports of ferrous scrap, we believe the U.S. Government should halt this practice to prevent further inflation and to protect its own industries' interests as provided for in the Export Administration Act of 1969. We very much endorse the amendment to the Export Administration Act of 1969. The example I have in my statement has already been referred to, so I will skip it.

Thank you very much, Mr. Chairman.

Mr. REES. Thank you very much, sir.

[The prepared statement of Mr. Workman and attachment follow:]

PREPARED STATEMENT OF DONALD H. WORKMAN, EXECUTIVE VICE PRESIDENT, GRAY & DUCTILE IRON FOUNDERS' SOCIETY, ON BEHALF OF THE CAST METALS FEDERATION, CLEVELAND, OHIO

My name is Donald H. Workman. I am Executive Vice President, Gray and Ductile Iron Founders' Society, and I am representing the Cast Metals Federation, which also includes the Malleable Founders' Society and the Steel Founders' Society of America. Combined these three Societies represent the interests of the ferrous foundries in the United States which are predominantly small businesses.

#### BRIEF SKETCH OF INDUSTRY

The ferrous foundry industry consists of 2,120 companies, employing 235,000 workers, many of whom are of minority races. The industry annually ships over 18 million tons of castings valued at over 8 billion dollars. These castings are vital to industries such as automobiles and trucks, railroads, machine tools, and general machinery, farm equipment, ordinance, electric generators and motors, internal combustion engines, appliances, and scores of other metalworking applications.

The industry ranks sixth among all manufacturing industries, yet its visibility is low because castings serve as component parts for many thousand consumer and industrial products which touch our lives every day. For instance, there are over 600 pounds of ferrous castings in your automobile, including the engine, brakes, and other parts. The attached booklet further described the vital nature of the foundry industry.

#### FERROUS SCRAP

In December, 1972, members of the Cast Metals Federation reported a sudden spiraling trend in the price of iron and steep scrap, the principal raw material used in our melting furnaces. By January the price situation had worsened and warnings of scrap shortages were being heard.

On January 24, 1973, representatives of the steel mills and ferrous foundries met with the U.S. Department of Commerce to request officially a limitation on the presently uncontrolled export of this vital resource. Because of the definitely inflationary aspects of the sharp increases in ferrous scrap prices, officials of the Cost of Living Council attended this meeting.

Iron and steel representatives at the meeting cited sharply increased domestic demand for steel mill products and ferrous castings, which, coupled with the then current rate of 10.7 million tons of scrap exports, would indicate a need for 53.5 million tons of purchased scrap for 1973, including an estimated 12 million tons of exports—an almost impossible task. The last severe scrap shortage in 1969-1970 generated only 46 million tons versus the 53.5 million tons required this year.

We officially asked the Department of Commerce to use its authority under the Export Administration Act to limit 1973 exports to 7 million tons.

It is apparent now that Japanese orders for ferrous scrap placed late in 1972 for their requirements for the first half of 1973 triggered the sudden rise in scrap prices in this country. The Japanese and other nations, have made it clear that they will import larger quantities of scrap in 1973. Exporters of scrap make no secret of the fact that scrap exports will take 12 millions tons in 1973, including a 150% increase for Japan alone.

At the January 24 meeting, the Cast Metals Federation presented the results of a fast survey of member ferrous foundries on both availability and price increases of scrap.

Tabulations at that time indicated the following :

	Gray and ductile foundries	Malleable foundries	Steel foundries
<b>A. Scrap:</b>			
Available .....	35	4	27
Difficult to obtain.....	43	8	29
Not available.....	1	0	2
Total .....	79	12	56
<b>B. Price increase since July 1, 1972 (percent):</b>			
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On February 21, 1973, fifty foundry executives again met with Department of Commerce and Cost of Living Council officials to urge the Department to license scrap exports to the 7 million ton level requested earlier. Commerce cited a slight decline in ferrous scrap prices, but foundry executives did not get an answer to their question, "What will happen when the Japanese re-enter the scrap market (in this quarter) to order their requirements for the second half of 1973?" We expect another surge in prices, and further shortages, especially on the West Coast.

It was conservatively estimated at this second meeting that ferrous foundries will pay an additional one-half billion dollars for scrap in 1973 over what were normal prices in 1972. When the additional cost of scrap to steel mills is added, especially those depending entirely on scrap, the inflationary and economic impact will be overwhelming.

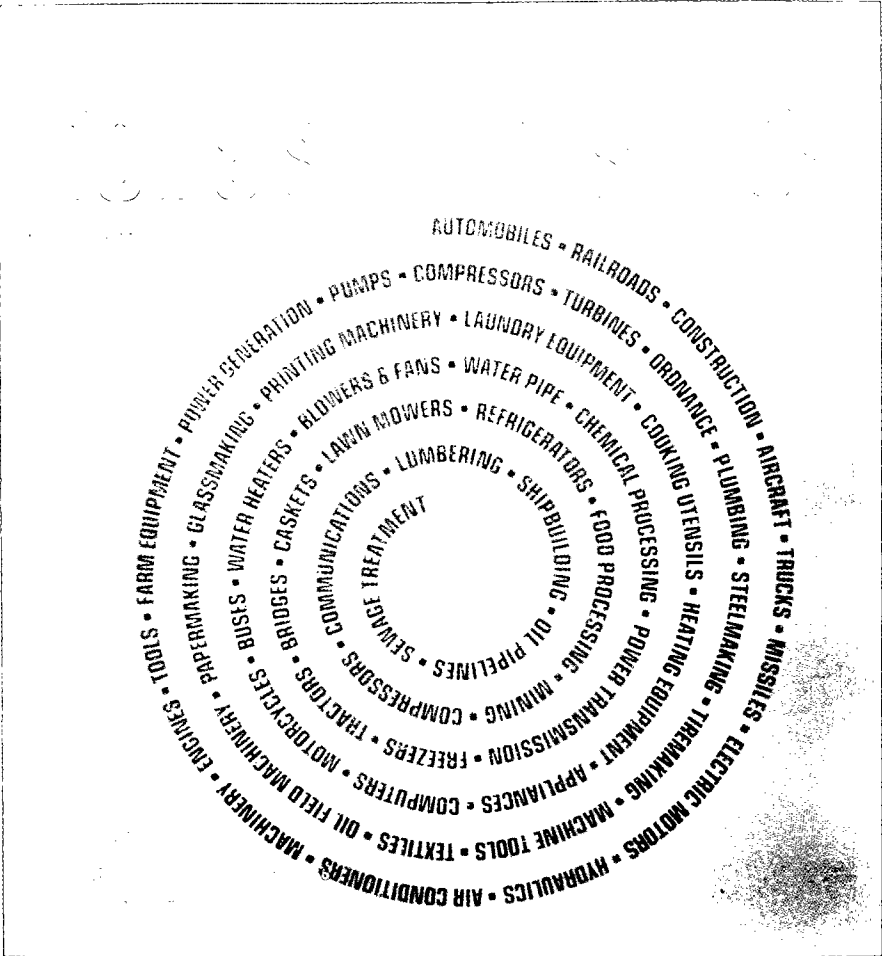
#### CONCLUSION

The ferrous foundry industry has had a one-two punch with the need for substantial capital investment in non-productive air pollution controls plus even greater expenditures to meet OSHA requirements. The profit limitations of Phase II and III stifle such capital investment and competition from other formed products and customer resistance sets realistic limits on passing on all of the increased prices being paid for ferrous scrap. Increased prices for scrap alone adds 3% to foundry costs.

In view of the fact that the United States is now the only industrial nation in the free world permitting exports of ferrous scrap, we believe the United States Government should halt this practice to prevent further inflation and to protect its own industries' interests as provided for in the Export Administration Act of 1969.

#### ADDENDUM

Rightfully our Government favors exports to help the balance of trade. However, does it make sense to export 2-3¢ per pound raw materials which return to our shores as finished products, such as Toyotas and Datsuns, at \$1.00 per pound?



# IRON AND STEEL FOUNDRIES

## AN \$8.3-BILLION BUSINESS, VITAL TO AMERICA'S PRESENT AND ITS FUTURE

Even though ferrous castings date back in history nearly 3,000 years, the iron and steel foundry industry and the castings it produces remains almost anonymous.

Yet, foundries constitute our nation's sixth largest manufacturing industry—ferrous foundries alone produce annually more than \$8.3-billion worth of castings. These products play an indispensable role in our economy and provide the very foundation of our society. The anonymity that surrounds the industry is a direct result of the fact that most castings are produced as component parts for many thousands of consumer and industrial products that touch our lives many times every day. It is estimated that 90% of all durable goods manufactured require metal castings.

While ferrous castings are as old as antiquity, they are also as new as tomorrow. Advanced metallurgy, together with modern production facilities and techniques have transformed ferrous castings into a large family of sophisticated engineering materials.

The ferrous castings industry is widely diversified,

with more than 2,100 foundries, located in every state but one. It employs 235,000 production workers, the majority of whom are from racial and ethnic minority groups.

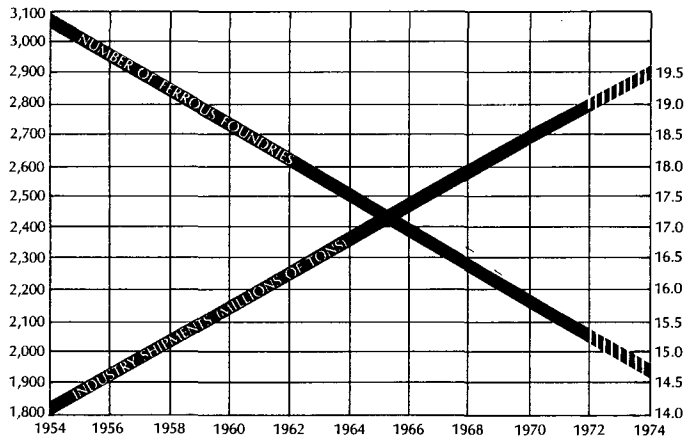
### AN INDUSTRY IN TRANSITION

Sweeping changes have taken place in the industry over the past two decades. Foundries are progressing from a labor-intensive to a capital-intensive business with the advent of sharply accelerating demand for castings. Mechanization and automation have become realities in this industry as in many others. Productivity has also risen with improved production methods.

A continuing serious problem for the industry has been the need for raising levels of profitability to support modernization and mechanization, as well as to provide the necessary capital to meet increasingly restrictive pollution and environmental control standards. Even with its history of modest profits, the industry has been able to increase value of shipments by more than 40% over the past decade.

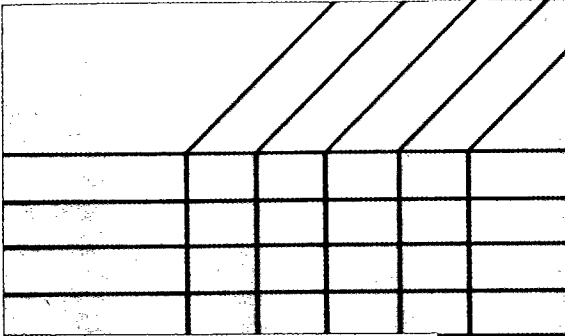
### GROWTH AND ATTRITION

While output continues to increase to meet customer demand, some large and many small foundries close their doors every year—unable to generate adequate profit because of extremely competitive conditions within the metal forming industries. And, this attrition is expected to continue. This trend however is viewed by many as a sign of strength rather than weakness, since the result has been concentration into larger and more efficient ferrous foundries.



**CAPITAL EXPENDITURES**

Capital expenditures of more than \$6-billion in the metal casting industry have set records for nine consecutive years from 1961 to 1970. In 1971, dollar outlays slipped back slightly due to the softness in the national economy. Foundry capital spending continues to boom again as the industry moves to further mechanization and modernization in order to increase productivity and capacity.



FROM INNER SPACE TO OUTER SPACE

## FERROUS CASTINGS ARE ESSENTIAL

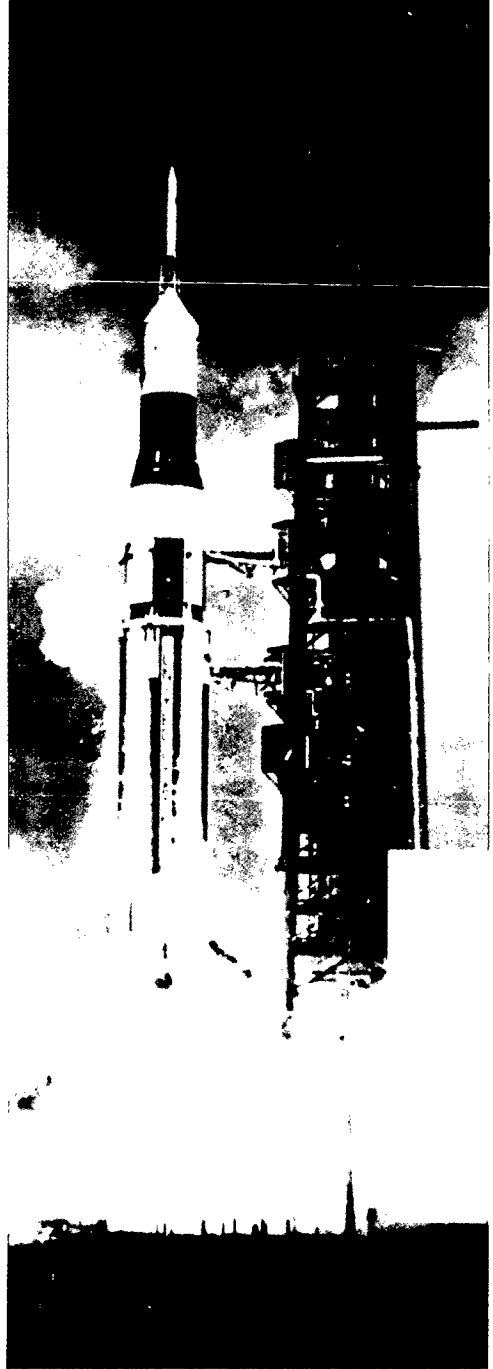
Ferrous castings are indispensable to our complex, highly industrialized civilization. They are used as components by more than 80,000 plants in 500 separate industries, producing hundreds of thousands of different products. Most things that touch our daily lives either contain ferrous castings or are produced by machinery and equipment with cast components. Ferrous castings have gone to the moon and plumbed the depths of the oceans.

Recognized as a modern engineering material, these cast metals have outstanding physical and mechanical properties. Metallurgical advances have developed compositions with incredible strength and toughness. Our stereotyped image of brittle castings is belied by a modern family of ductile materials that can literally be bent into the shape of a pretzel. Modern ferrous castings are amazingly strong, with tensile strengths exceeding 300,000 psi.

Because these castings are frequently the only way to produce complex shapes—often with internal cavities and passages—this process is not subject to normal product obsolescence. The competitive position of the industry has steadily improved in recent decades. Authorities studying technological evolution forecast a strong growth trend for ferrous castings well into the next century.

A major factor in this optimistic attitude is that castings are unique in that they provide product engineers with unusual design freedom and the shortest route between raw materials and finished product.

Industry economists anticipate that ferrous castings markets will also continue to expand into the foreseeable future and are forecasting a substantial annual growth rate of six percent for the next decade. Because foundries generally provide a complex engineering service for their customers, imports of castings from foreign sources will continue to comprise only a small portion of domestic consumption.







## ADVERTISING A TRUCK



## ELECTRIC MOTORS



### ARM EQUIPMENT



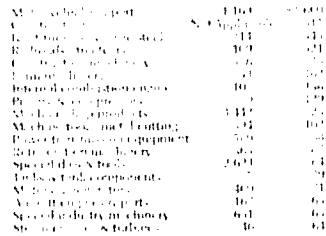
ORDNANCE



## REFERENCES



## ENGINES


$$S_{\text{eff}} = \int d^4x \sqrt{-g} \left[ \frac{1}{2} R - \frac{1}{2} (\nabla_\mu \phi)^2 - V(\phi) - \frac{1}{4} F_{\mu\nu} F^{\mu\nu} - \frac{1}{2} (\nabla_\mu \psi)^2 - \frac{1}{2} \psi^2 \right] + \int d^4x \sqrt{-g} \left[ \frac{1}{2} (\nabla_\mu \psi)^2 + \frac{1}{2} \psi^2 \right] \quad (1)$$



## IN TUNE WITH THE ENVIRONMENT

Casting producers can truly be said to be in tune with their environment. Virtually all foundries now have elaborate emission control devices to curtail pollutants of the melting process. Foundrymen are responsible citizens in their communities and are as anxious as anyone not to pollute the environment, even though installing non-productive emission controls imposes a serious financial hardship on most producers. These costs have been difficult to pass along, and as a consequence, a substantial portion of the expense has had to come from operating profit.

Success of air and water pollution control measures in the foundry industry has been outstanding, with effectiveness reaching 99%. It should be borne in mind that most foundries—unlike many other industries—operate melting facilities only a few hours each day and thus are minor contributors to our nation's air pollution problem. Also, the nature of emissions from the melting process is such that they do not add to the general buildup of harmful airborne compounds.

## RECYCLING

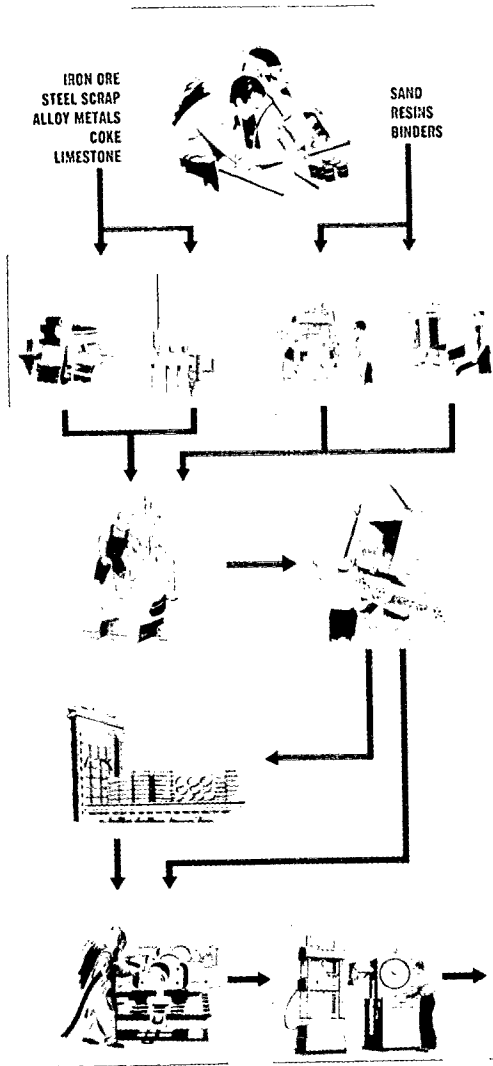
An estimated 82% of the ingredients of all ferrous casting is comprised of scrap metal. It's quite possible that the cast iron engine block on your car contains molecules of iron that were present in a Civil War cannon, a steel rail that first bridged this continent, or a Model T Ford. Foundries play an important role in recycling these waste materials back into useful products.

## POLLUTION CONTROL

Expenditures for clean air and water are estimated to be more than 50% of total capital appropriations in the primary iron and steel industry. A recent survey indicates that foundry expenditures for new plant and equipment in 1972 exceeded \$1-billion. In addition to controlling pollutants, foundries are also heavily involved in improving in-plant environment.

## HEALTH AND SAFETY

The Occupational Safety & Health Act will have a profound effect on ferrous foundries. Some authorities predict that improvements in environmental working conditions will prove more costly for the industry than pollution control, imposing a further need for capital. However, these improvements are expected to enhance the industry's position in the labor market.



Essentially, the ferrous foundry produces castings through a technique of pouring liquid iron or steel into cavities of sand, metal or ceramic molds. Most frequently, these metals are melted in electric furnaces or cupolas.

Strategic raw materials in the melting process are iron ore, steel scrap, alloy metals, coke, and limestone. Sand, resins and binders comprise the mold into which the metal is poured, as well as the intricate cores which form internal casting profiles.

Typically a pattern is made, which conforms to the external shape of the casting. Sand is formed around this pattern in a box like frame or *flask*. After removing the pattern from the two mold halves, and inserting cores, where needed, metal is poured into the cavity formed by the pattern.

When the molten metal has solidified, the casting is cleaned and subjected to heat treatment and finishing operations prior to inspection.

Although castings vary in weight from a few ounces to a hundred tons, the process for producing them is essentially the same. Automatic molding equipment and elaborate materials processing enable high-speed production runs of tens of thousands per piece, from a single pattern. Some foundries provide a wide range of additional services for their customers, such as machining, coating, and X-ray and ultrasonic testing facilities.

# THE CAST METALS FEDERATION

ONE SOURCE FOR INFORMATION ON AN \$8.3-BILLION INDUSTRY

To better cope with future challenges facing individual segments of the iron and steel foundry industry, ferrous casting producers have now united to form a new and dynamic organization, the Cast Metals Federation. It is comprised of the three autonomous trade associations: the Gray and Ductile Iron Founders' Society; Malleable Founders Society; and Steel Founders' Society of America. Ferrous castings comprise ninety percent of total foundry output.

While the potential benefits of this new federation are great — both to members of the three societies and to the foundry industry — their force initially will be felt in the presentation of a combined front on governmental relations, preservation of strategic raw materials, and problems related to environmental control and health and safety.

Other joint activities include national and regional meetings and seminars on a wide range of specialized

management subjects. As the Federation becomes more fully operational, its activities will be expanded to develop stronger industry programs. An important aspect of these efforts will be intensifying the promotion of ferrous castings as modern engineering materials. A single source for technical and marketing information on ferrous castings is a strong advantage for casting buyers. One of the primary objectives of the Federation is to provide a broader range of programs and services to present members and their customers.

The need for this new Federation has been strongly evident for some years. It was well expressed recently by the Stanford Research Institute which, in a late 1971 study of the foundry industry, noted, "Lack of a unified spokesman for the casting industry has hurt its production, research and government relations. The present situation is causing pressure for mergers."

## MAJOR PROGRAMS

**Government Relations • Environmental Programs • Statistics • Cost & Financial Management • Meetings and Seminars • Publicity and Public Relations • Technical Literature and Information • Marketing • Industry Forecasts • Industrial Relations • Special Studies and Surveys.**



Formed in 1928, the Gray and Ductile Iron Founders' Society provides valuable contributions to its 200 members and the gray and ductile foundry industry in the area of cost and financial management, marketing, research and technical services, and governmental relations. It also functions as the industry's trade association in Canada.



The Steel Founders' Society of America is the major trade association for the steel casting industry in the U.S. Founded in 1902, SFSA membership now numbers 128 member foundries in the U.S. and Canada and 15 foreign members. The major portion of the SFSA operating budget goes directly to research.



The 76-year-old Malleable Founders Society is the national trade association for the malleable iron castings industry. Its membership consists of foundries which cast more than 70% of all the malleable iron produced. The society's activities center around three main areas: public and governmental relations, research and technology, and marketing.

Governmental affairs of the Cast Metals Federation are co-sponsored by the National Foundry Association and the Non-Ferrous Founders' Society. CMF maintains a Washington office through Jack Beatty & Associates, 918 16th Street, N.W., Washington, D.C. 20006, (202) 833-8740.

Mr. REES. Mr. Berman, could you join us for questions?

We are limited on the time the committee has for questioning. I wish we had a couple of hours because this is an interesting field.

Mr. Mitchell.

Mr. MITCHELL. Yes, Mr. Chairman. I have many questions, but in the interest of time I will reduce most of them to writing, give them to the staff, and ask the witnesses to reply to the questions.

I would like to raise just two questions now. The first is to Mr. Aiken.

Mr. AIKEN. Yes, sir.

Mr. MITCHELL. Very properly, on your page 2, you addressed yourself to the fact that there is no clear-cut definition of terms in the act.

Mr. AIKEN. Yes, sir.

Mr. MITCHELL. When I look at the supplementary data report, it seems to me in one of your charts, and I think it is on page 15, you must have arrived at some definitions for these terms; is that correct?

Mr. AIKEN. Yes, sir.

Mr. MITCHELL. I did not see them spelled out clearly here. By inference, they are on page 15.

Mr. AIKEN. Yes.

Mr. MITCHELL. But do you have specific definitions for terms?

Mr. AIKEN. No, sir. What I have put on page 15, if I recall the page correctly—I put the definition where I say, speak about, exports heavier than normal, and taking a look at the chart up above, that, you see I point out 1961 is the peak, but that is the only one, because there is no definition I can find anyplace on this. I say “heavier than normal.” I take the year, it says “a little bit ahead and a little bit behind.”

Mr. MITCHELL. What about inflationary?

Mr. AIKEN. Inflationary, I have the definition right here, “percent increase in price in 12 months.” That is just a guess as to what it is.

Now, the business of trying to find out what is a shortage, for example—

Mr. MITCHELL. That is where we run into trouble again.

Mr. AIKEN. I have that same difficulty. Now, I am assured that there is no shortage now. If there is no shortage now, how did the price go up 40 percent? Maybe it is for the Treasury Department to make inquiry.

Mr. MITCHELL. Well, my point was that in column 1 and column 3, exports and shortages, really, you are asking for definitions, but here you have not given precise definitions.

Mr. AIKEN. I gave some, and I said what, as best I could guess, they were.

Mr. MITCHELL. All right. Thank you.

Mr. AIKEN. Obviously, there, we are not in agreement.

Mr. MITCHELL. Just one quick question to Mr. Berman.

Yours is a very cogent statement, Mr. Berman. I suppose we expect that kind of a statement from representatives who are here from Alabama, or from those headquartered in Alabama.

Mr. AIKEN. I am going to move.

Mr. MITCHELL. The whole thrust of your statement, it seems to me, was toward the free flow of the materials into the world market?

Mr. BERMAN. Yes, sir.

Mr. MITCHELL. I have some problems with this.

You insist that such free flow does exist, and I would be inclined to agree with you. However in one of the other statements that was submitted, there was an article from the Japanese Commercial Daily pointing to the cartels in Japan which are importing scrap metals clearly to hold down domestic prices in Japan. I do not know whether that was in someone else's statement.

Mr. AIKEN. It is in the supplement to my statement.

Mr. MITCHELL. Mr. Aiken—yes. I do not know whether you have a copy of that statement or not.

Mr. BERMAN. Well, if I can make a relationship to you, Mr. Mitchell, we have, I would guess, what you would consider similiar situations that exist right in the scrap purchasing community within the United States where certain consumers, for one reason or the other, decide that they do not like the particular price in their own geographical, local area, and they will go out and perform a feat that we call "spring-boarding" scrap, where they go away from their own home generating area, buy scrap from the distant market, pay a higher price for it and bring it in, in order to obtain a certain level that they think is right within their own area. This is done right here in this country by many consumers at many times.

Mr. MITCHELL. Fine. My intent was not in indict the Japanese for what they are doing; my intent was really to question that if we have that situation in Japan and the situation you just alluded to in America, do we really have the free flow of goods in the international trade. Remember that was the burden, really, of your whole testimony.

Mr. BERMAN. Yes, but they compete over there between themselves, too. It is simply a decisionmaking process of when is a buy good and when is a sale good, or the contrary.

Mr. MITCHELL. Well, I will not belabor it, but suffice it to say, it appears to me that by both this act in Japan—if it is true—and the fact that the arrangements you just described exist in this country, there are contrived impediments to the free of goods and, therefore, that would be the only reason I would have to question your whole statement. It was an excellent analysis, but it was based on what appear to me to be, a faulty premise.

Mr. MULLESTEIN. Could I speak to that point, also?

You have the same situation in England right now where it is a limitation on the flow of scrap out of England. You have it in the European Common Community today; so, there is no such thing as a free flow of materials, just as you were pointing out, Mr. Mitchell.

Mr. MITCHELL. I will reduce my other questions to writing and submit them to the witnesses.

Thank you very much.

Mr. REES. Mr. Blackburn.

Mr. BLACKBURN. Thank you, Mr. Chairman.

I would like to suggest that before we conclude the hearings we have a day of testimony from someone from the Department of Commerce and perhaps, Peter Flanigan who is down at the White House on the Council on Foreign Economic Policies.

Mr. MITCHELL. And the State Department?

Mr. BLACKBURN. Well, I do not know, but I do think those two departments ought to be brought in to give us the benefit of their thinking.

Mr. REES. I wish you would supply some "May" days to the committee.

Mr. BLACKBURN. Now, I have a question for Mr. Berman.

You mentioned the discrimination in freight rates between ore and scrap. How great is that discrimination?

Mr. BERMAN. We have had a study done by Battelle again, and on their calculations it figured a dollars and a half per ton on the average, the difference, the discrimination between a ton of scrap and ore.

Mr. BLACKBURN. You mean it is cheaper to haul ore than it is scrap?

Mr. BERMAN. Yes, sir.

Mr. STAPLETON. Could I comment on that?

Mr. BLACKBURN. Yes, sir.

Mr. STAPLETON. I represent a fully integrated mill which has blast furnaces and, therefore, we use virgin ores and other raw materials along with scrap. The suggestion that a reduction in scrap freight rates would be beneficial to everybody, we agree with that but attempting to correlate it with virgin materials we do not think makes much sense for this reason: No. 1, ore is produced from one origin point, shipped in units trainloads to one receiving point. It is a homogenous material. It is unlike scrap, in that scrap would be picked up from several different producing points. If there was a correlation between, for instance, pig iron, merchant pig iron, and scrap freight rates, there is some basis for that, we believe, but we do not see the correlation or comparison between virgin ore rates. For one thing, there would not be a reduction of the hot metal produced. You would not cut the wind on your blast furnaces if there was a nominal decrease in scrap rates. Your fixed costs on existing plant facilities are such that you could not possibly afford this.

I am all for the scrap industry getting lower rates. This is great. But, to use this as a vehicle in comparing it to the iron-ore rates, we do not think has any validity.

Mr. BLACKBURN. You do not think that lowering the rate would mean that it would be easier to move the scrap, say, from the west coast?

Mr. STAPLETON. I do not think you would use any more scrap.

Mr. BLACKBURN. You do not think you would use any more scrap?

Mr. STAPLETON. No, sir.

Mr. HANNA. The point I want to make—and be sure you do not miss it, being from the West: It costs less to ship an automobile from Michigan to the coast than it would cost to ship the ore back into the industry to somebody that wanted to use it in a mill. The freight rate that really keys me off is the differential between shipping into the West and shipping out of the West, and it also keys me off a bit, because we, in relation to the rest of the United States, are wholly dependent upon rates. You see, if we are going to ship on the ocean our cheapest market is to Japan, and out in the Pacific, but if we want to do business with the rest of the United States it has got to be on rail, and rail is the highest rate. You can ship some of your basic ore on water in middle America. We cannot do that. So, we are really in a very strange position, and that is why there is an accumulation of scrap on the west coast that cannot be used.

Mr. BERMAN. Mr. Rees, if I may, I would like to have Dr. Cutler give just a few words on why our position is such. I think there should be just a little explanation.

Mr. CUTLER. In direct response, Mr. Blackburn, to your question to Mr. Berman, the \$1.50 a ton that was suggested is not a comparison of the freight rate on ore directly to the average rate on scrap. We recognize, as Mr. Stapleton has suggested, that there is something that has to be done to the ore that puts it in the same condition that scrap is in, being prepared to become new steel, and, so, the Battelle Memorial Institute undertook a study to establish the metallurgical requirements, what has to be moved by rail to make ore into steel and what has to be moved by rail to make scrap into steel. The cost of moving all the components based on the rates of \$4.12 per ton of scrap and \$1.66 a ton for ore, about a 2½ to 1 spread, was shown to really be \$1.50 more than it should be. In other words, the \$4.12 should have been \$1.50 lower, and at that relationship, although not equal, it was equitable, and it was Battelle expertise that said that was the proper relationship. So, the answer to what discrimination is, is anything that distorts that relationship.

Mr. BLACKBURN. The reason I am asking the questions is I am trying to gather ammunition to abolish the ICC.

Mr. HANNA. I will join you.

Mr. BLACKBURN. We have two votes already.

Let me ask this question: How much would the cost of scrap have to be before we can start to pay to get automobiles off the road?

I have heard talk about we ought to have a special tax on every automobile that when it is ready to be junked you do not have to worry about somebody hauling it in. This tax would pay the cost of moving it off the road. How much would it have to get?

Mrs. BERMAN. Mr. Blackburn, I might say this, that the automobiles are rapidly being cleaned up at these price levels. They are moving.

Mr. BLACKBURN. That is at the \$40 level?

Mr. BERMAN. At the present price levels, the \$45 to \$47 price range, and then you put it into the various classifications by processing, and so forth, of the various grades of scrap.

Mr. BLACKBURN. But there is some point where it is so low that you cannot even get a dealer to come and drag it in.

Mr. BERMAN. Yes, sir. The problem was quite acute in 1970—I beg your pardon, 1971. At that price level, the problem was quite acute. As the market has gradually moved upward we find automobiles moving and moving readily. There again, it is what we said in our statement, it is a gradual process to involve people in the scrap-hauling business, because, as the price goes down, then, they must find some other ways of earning a livelihood; so, they, themselves, have to get out of the industry. But as the price increases, these same people get back into it, though not as rapidly as the demand goes up.

Mr. BLACKBURN. Thank you. I have no further questions.

Mr. REES. Mr. Hanna.

Mr. HANNA. Mr. Chairman, I think there are several things that these witnesses could do to help this committee to understand a little more fully what we are dealing with here.



First of all, it would be helpful if we had a distinction between the location and the utilization of the various users. It appears to me, from the testimony I have heard—I think it was from Mr. Mullestein and from the last witness that spoke—Mr. Workman, is it?

Mr. WORKMAN. Yes.

Mr. HANNA. That spoke for the casting operations—that the small mills and the casters use a much higher quality of scrap in their business, and this whole picture would look different as coming from them.

Now, if we get ourselves in a position where we are looking at a total composite, where the situation is not distorted by the fact that the great big producers use such an inordinately high quantity as the base product and a low percentage of scrap, then, they distort the picture as to how it exists for your particular shop. It would seem to me that it be of some benefit to know how much scrap you use and where you get your scrap, because it seems to me, as pointed out by Mr. Berman, there is a good argument about whether there is or is not a shortage of scrap, depending on where you are. It is like a baldheaded man with a beard. He has obviously had some ability to grow hair, but one worries about his distribution.

Mr. BLACKBURN. He is a showoff. He has got it in both places.

Mr. HANNA. I look at it as balanced distribution.

Now, I think this has been borne out by the arguments here, that if you try to look at the question without having these distinctions, then, everybody's argument is true. But it still leaves you with the condition that you are concerned about.

Mr. MULLESTEIN. Mr. Hanna, I might say that we have done everything in our company that Mr. Berman advocated this morning and we are still in trouble.

By way of example, in 1956 we started to move completely from open-hearth furnaces to electric furnaces, which is an entire recycling of materials. We worked on the freight situation, because we believe in lower rates on scrap. I do not know whether Mr. Stapleton agrees with me entirely, but we certainly agree on that, and we have worked with the Interstate Commerce Commission and have been successful in certain areas in reducing the rate.

We also have reduced our inventory significantly when scrap is available. So, we have done all of the things that have been advocated now. Necessarily, by being a cold-metal shop, we are forced to do some things, just as you point out, that others are not doing.

Mr. HANNA. Well, I believe Mr. Berman makes a very good—to me—statement, and I have great sympathy for his point, and it has been my observation that processors generally try to maintain a suppressed price for their suppliers. It is not only you that does it, but the cookie makers and the flour mills and the guys who make breakfast foods do it with grain guys, and they are screaming, and they are going to be screaming at us to stop shipping wheat because next year there is going to be a grain shortage, and, next year, they are going to come up and say that the grain shortage is made up because we shipped too much wheat to Russia and China and other places. I can hear it and see it coming, but the truth of the matter is that we have a better relationship between users and supplies on that scale just as we do in your business, and I think whoever makes that statement

quoted from the steel industry and is a pretty far-seeing man, and I think should be encouraged. If we are taking steps in this legislation to discourage this kind of thing, then, I do not want to take it, because I would like to encourage a happy relationship for a continual kind of flow and an assured flow, a balanced flow, a what you call a stabilized flow, of materials.

So, I would hope that we would spread our benefits in the industrial complex to all of the participants therein.

Mr. AIKEN. Mr. Hanna, I think you are very correct in noting the difference between the big steel companies and the little ones, and on page 19 of the book here it shows a group of these small cold-metal shops, so-called cold-metal because we rely entirely on scrap. I have data here from 1971. It shows the tons shipped. You have got to bear in mind that with these little shops every time we send a pound out we have got to get a pound in, because, otherwise, we are through. So, we buy on a regular basis our melt for the month. If we do not buy our melt for the month, then, the next month we have got to buy not only that one but make up the difference. So, we are in the market on a regular basis, the little shops are.

If we look at what a \$1.10 a ton increase would do—you can see it in the next column, the impact on that. You can also see what the net income was, which was pretty darn slim.

They speak about the benefit of cleaning up of automobiles. Mr. Blackburn was concerned about that. If you wipe out these shops, their main customer is going to be gone.

You mentioned that big companies export. That is true, some of the big companies in the industry are not dependent upon scrap as much as the littler guys are.

The next graph to this shows what will happen or what the balance of payments for the Nation is, and it is going to be pretty rough if you drop out this bloc of companies.

Mr. HANNA. I think one of the things we might want to get from the Commerce Department, Mr. Chairman, is who is shipping out scrap on the export market, and if that is the place where the shortage exists, because we may have a problem arising from some places, and we ought to be able to tell the difference between whether they are exporting from a place of surplus or whether we are exporting from a place of deficiency.

The final thing is that this whole situation kind of upsets me a little bit. It is that, as I watch it from the west coast, what happens there is that we are shutting down Kaiser. The Kaiser mill, I think, shuts down for 6 weeks, I think, not because they could not get scrap but because they could not sell finished products, and that was because the Japanese, having availability to the scrap plus having adjusted shipments that come from Japan—they agreed with the United States that they would go on a quota system but they shipped the whole quota to the west because they made more money by doing it that way instead of shipping the larger quantities to the United States, and they reduced the quantity and shipped it all to the higher priced market and knocked Kaiser out of business. So, I think we ought to look at something more sophisticated. I recall, in the movie business, when they wanted to solve one of their problems, if a guy wanted to buy or show an A film the movie industry made him buy two B films. Maybe what we ought to

do, is do that in reverse. If the Japanese want to buy scrap, we ought to also say "You have also got to take so much unfinished products."

Mr. REES. That is how they sold whisky in World War II.

Mr. STAPLETON. Mr. Rees?

Mr. REES. Yes?

Mr. STAPLETON. Relating to what Mr. Mullestein said, and I know that it has been a constant criticism about the steel industry, about the buying policies. Now, if you will look at that graph opposite to page 22 in your book, you will note that there is a definite trend of increasing the inventories at lower scrap price levels, and there is a decrease of inventories when the prices are at their peak levels. There has been a very significant trend of increasing inventories all along, beginning in 1970, and inventories have come down in this last shoot-up. Therefore I think that this criticism of our buying practices is completely unwarranted. It is generally considered good business conduct to maintain a minimum working inventory. It would be very nice if our customers acted the same way with their orders, but it just does not happen to be that way, and I do not know how many people are in a cash position where they can set up huge inventories that will last them for 2 or 3 years in terms of having a hedge against any future price increases. It would be very nice if one could do that, but this does not seem to be possible.

Mr. REES. Mr. Brown.

Mr. BROWN. Thank you, Mr. Chairman.

Gentlemen, in kind of an overview, I would just like to say that although the testimony and your statements this morning, I am sure were intended to contribute to my understanding of the problem, I am a little afraid that the rather diametrically opposed rationale or discussion of problems and the reasons for them have, if anything, made me have less of an understanding of the problem than I had before I arrived. I have only some random questions to ask because I have not been able to study your statements and put them in perspective with one another and come up with what would probably be more incisive questioning.

Mr. Mullestein, do you substantially concur with the graph that Mr. Berman has put up?

Mr. MULLESTEIN. I have not seen it.

Mr. BROWN. Would you take a look at it—or you, Mr. Stapleton, or Mr. Aiken?

Mr. REES. The bottom line, I think, contains the scrap prices, and the aggregate steel prices are on the top line.

Mr. BROWN. When you talk about a finished steel composite price, you are talking about the product you produce?

Mr. MULLESTEIN. Not necessarily.

Mr. BROWN. Are you, Mr. Berman?

Mr. BERMAN. We are talking about the composite price for all steel products averaged out; yes, sir. I mean, you cannot pick out a particular product and make that the criteria. This is simply finished steel in cents per pound as reported by Iron Age magazine.

Mr. BROWN. Steel made from scrap?

Mr. BERMAN. No, it incorporates plates, structurals, sheets, simply a component price.

Mr. BROWN. All basic steel products?

Mr. BERMAN. Basic carbon steel products; yes, sir.

Mr. MULLESTEIN. Did you say carbon steel? That is not all steel products, then, not by a long shot. Carbon steel is only a part of the steel that is produced in the United States. It is not by a long shot all steel products.

Mr. BERMAN. Well, the one thing I would suggest, then, gentlemen, is that you look at Mr. Berman's statement and you come up with the draft that you think more accurately reflects what he has reflected.

Mr. REES. Just transpose the green line and the red line.

Mr. BROWN. Can we agree that the scrap price, the composite scrap price, at the end of 1972 is approximately what it was in 1952?

Mr. STAPLETON. Yes; and there is a good reason for that, though, Mr. Brown.

Mr. BROWN. Do you agree to that, first?

Mr. STAPLETON. Yes, but I can tell you the reason for it. During the last 15 years or so, the steel industry—and this has to do with the fully integrated mills—has made a determined effort to improve the efficiency of their blast-furnace production by better burdens in charging the furnaces. For instance, as a very clear illustration in our own case, we have a complement of eight blast furnaces that 12 to 15 years ago produced 7,500 tons a day. Now, the figure is up to 16,000 or 17,000 hot metal tons per day for the same complement of furnaces. We were not the only one that did this. We spent a lot of money doing it, but this served as an umbrella for scrap prices during the decade of the 1960's. I think this is the reason for the scrap prices being at the level they are illustrated on the graph.

Mr. AIKEN. Mr. Rees?

Mr. BERMAN. How does what you have just said relate to the price of scrap?

Mr. STAPLETON. You said "the price of scrap." I think the significance is if it is a fairly constant level during a certain period of time, and there has not been an increase since 1952 of a very significant level until very recently, in 1970, and other times. But I would say the lower levels had been attributed to the fact that there was the emphasis on hot metal production.

Mr. BROWN. In other words you are saying the demand for scrap accounted for the reduction, your lessened demand for scrap reduced the price of scrap during that period of time?

Mr. STAPLETON. Yes, but as one company we used more scrap with a 5-million-ton hot steel capacity than we did with a 7½-million raw steel capacity.

Mr. BROWN. In fact, you are concurring somewhat in what Mr. Berman said, the demand has been, to a great extent, the determiner of the price?

Mr. STAPLETON. That is right. But, at the same time, I say the industry has grown in electric-furnace capacity and it has grown sufficiently to pick up the slack on scrap.

Mr. BROWN. You are not saying that during the period of time the price of scrap went down we were not exporting; are you?

Mr. STAPLETON. I do not know—

Mr. MULLESTEIN. Sure, you were exporting.

Mr. BROWN. I mean, you are not saying that, the available supply at that time was a factor in depressing the price, are you?

Mr. STAPLETON. No. But it has been since then though. In 1970, it was very apparent, and in 1969 it was apparent, and certainly this year it is quite apparent—and at the end of 1972.

You can show a correlation graph which is at the increased scrap price and correlate it that in any way you may extrapolate in terms of exports.

Mr. BERMAN. Mr. Brown, if I may, for just a second?

Maybe I can relate this to something a little more personal, because mine is relatively a small business.

The entire scrap processing industry has expanded and grown in their facilities for preparing scrap. I came into a family-owned business in 1946, but since 1952 we have expended a great deal more money for equipment for processing scrap than we had ever imagined would be called for in this business. As I have made the statement before, I have never had so much or owned so much in all my years. We have the facilities, as many of our members have just continued to expand in this business and will continue to expand, provided that the markets are available for them to ship the product to.

Mr. BROWN. All right. Are you saying that the quality of the scrap that is being presently delivered to Mr. Mullestein's mill and the others is better than it was, say, in 1962.?

Mr. BERMAN. As an overall item, yes, sir.

Mr. BROWN. Is there any great difference between 1962 and, let us say, 1968?

Was there that great improvement of quality, and that is why the cost went up?

Mr. BERMAN. Let me put it this way. There were some pretty great technology changes in the industry from about—let me think for a minute—from about 1960, starting around 1959 and 1960, when modern and larger equipment was made available to the people in the scrap processing business for processing ferrous scrap—tremendous pieces of equipment. I am sure that practically everyone, at one time or another, has seen or referred to movies where automobiles are taken and baled in their entirety, and now they have machines that shred them up in a matter of just a minute or so into small pieces, and cleans them and makes a higher quality scrap than it previously did. Well, this type of equipment is available. It has been installed throughout the country.

Mr. BROWN. What I am basically asking you: Are you performing a function that heretofore, with the old technology, was performed by these gentlemen?

Mr. BERMAN. No, sir. No, sir.

Mr. BROWN. OK. All right.

Mr. BERMAN. As a matter of fact, with this—

Mr. BROWN. I have just a couple more. You do not mind answering a few more questions; do you?

Mr. BERMAN. No.

Mr. BROWN. OK. Let me ask you another question.

Mr. Aiken, in one of your charts, the one you referred to the most, showing the domestic steel imports minus exports in dollars, the same scale, and so forth, whatever page, 2 or 3—

Mr. AIKEN. Page 1.

Mr. BROWN. Page 1. Let me ask you this: To what extent, dollarwise, is exported scrap reflected in imports of steel; that is, proportion of scrap to pig, and imports, and so on?

In order to answer that question, I think you have got to explain what you talk about in imports of steel.

Are you talking about the same, are you talking about the same items, when you talk about imports of steel? An automobile is steel, I suppose.

Mr. AIKEN. No.

Mr. STAPLETON. Raw steel.

Mr. BROWN. OK.

Again, let me ask you to what extent dollarwise, as we are looking to the balance of trade, and so on, to what extent dollarwise, is exported scrap reflected in imports of steel, the proportion?

Now, Mr. Mullestein, in his testimony, I believe, said that the metal used in making steel consists half of scrap.

Mr. STAPLETON. I have a figure here, if you want to hear it. In dollars, in 1972, scrap exports amounted to \$233,395,165. The imports of steel mill products during that year were \$2,793,648,000.

Mr. BROWN. All right. Now, that reflects a lot of things other than just the metal itself?

Mr. AIKEN. It does not include automobiles.

Mr. BROWN. No, but when you were talking about processing done by you gentlemen or done by foreign nations, is Mr. Mullestein's statement correct that half of that steel that we are importing consists of scrap?

Mr. MULLESTEIN. No. My statement said that half of the steel made in the United States would come from usage of scrap. Now, if you get to certain countries around the world, I would say that this does not follow necessarily in other countries.

Mr. BROWN. Gentlemen, I have asked you about three questions now, and each time there has been a differentiation, sometimes in Mr. Berman's favor, sometimes in your favor, regarding the figures you are using. I do not think we can talk in generalities.

Mr. REES. I am going to break in here, because it is 12:15.

Mr. BROWN. Let me ask one further question, Mr. Chairman.

Do scrap prices vary substantially area to area, geographically?

I think it was the point of your statement that transportation costs were a big item?

Mr. BERMAN. Yes, sir.

Mr. BROWN. Is it your posture that basically there is scrap in some places that is usually exportable where it would not be utilized domestically because of the transportation costs to domestic mills?

Mr. BERMAN. Yes, sir.

Mr. BROWN. OK. Now, let me ask you again: Do scrap prices vary substantially from area to area?

Mr. BERMAN. Yes, sir, depending on the location. As I say, rail freight rates or domestic rates establish what the local market will be, and if scrap is generated in a remote area, then, simply the rail freight must be taken into consideration because scrap is sold on a delivered price basis.

Mr. BROWN. Are you saying that if scrap is located where there is no mill at the present time, scrap prices would be substantially lower in that area?

Mr. BERMAN. I might clarify it by saying that in the southeast we have seen a number of small mills establish themselves in areas just for this reason and do very well financially, because scrap was available, because it was remote to the mills or present market.

Mr. BROWN. Let me ask you this——

Mr. REES. Your last question.

Mr. BROWN. OK.

What is the comparative export versus domestic price of scrap at the present time?

Mr. BERMAN. At the present time probably it relates to about \$20 or \$25 a ton, depending on shipping costs, charter rates, and by that I mean the export price is higher.

Mr. BROWN. Can you give me the figures, so I can relate them?

Mr. BERMAN. Depending on grade, of course, but——

Mr. BROWN. Well, compare two of the same grade, then.

Mr. BERMAN. All right. Two of the same grade.

When we talk about average price, which, of course, is a composite price, No. 1 heavy melting steel would be \$25 a ton cheaper domestically than it would be export today, because of ocean rates and stevedoring charges and those sorts of things, thus \$47 versus about \$67 to \$72.

Mr. BROWN. But what is the price to the scrap seller?

Mr. BERMAN. To the man who actually sells the scrap for export?

Mr. BROWN. He is getting a better price on the export market than he is domestically?

Mr. BERMAN. Yes. I know. He can get a better price at the time, but scrap—it is hard to explain, because scrap is generally sold delivered, and it is a long-term sale, much longer sale than we ever make in this country. I mean, people who sell scrap export can take a contract for anywhere from 60 to 120, 150 days for delivery, so he is taking a long-range position on what the market may do between the time that he sells and the time that he actually delivers. He is taking a position that the market can fluctuate either upward or downward. He also takes the position that charter rates on vessels can fluctuate upward or downward, and all of these, essentially, relate themselves back to the FOB scrap-yard price on the material.

Mr. BROWN. Do you have similar long-term contracts with domestic buyers?

Mr. BERMAN. Not as a general rule; no, sir.

As a rule, the domestic purchases are not what you would consider a long-term contract.

Mr. REES. Well, I also get tired of people reading statements all of the time.

Mr. BROWN. Mr. Berman, would you furnish me with your proposal to the Ways and Means because I think this tax incentive approach is very important. I am working on a similar proposal.

Mr. REES. Here it is, right here.

Mr. BROWN. Very good. That is not the statement, not the proposal to the Ways and Means?

Mr. REES. Yes, it is. I do not think we have time, because it is 12:20, and people have other appointments. I have not had a chance to ask any questions.

But I am very much interested in what would happen if you did have a quota of, say, 7 million tons for export. What would be the effect on price?

I mean, obviously, if there was a quota on 7 million tons of exports, there might be a greater demand from the Japanese or the importers of scrap. If there is a greater demand, the price would go up, and then there would be a relationship with the domestic price where you would supposedly have enough scrap to supply the domestic needs. What would be the interaction? Would you have to have a dual price system like we have on gold with an export price and a domestic price, or would we find that by limiting the exports of scrap, we would tend to run the domestic price up because it has a relationship to the export price?

Mr. AIKEN. Sir, may I answer that?

That part on page 14 will give you a pretty good idea of what would be going on.

Incidentally, the line, if you will look at the line at the top of the page, you will see that it is identical to the red line on the chart. You were asking about that, Mr. Brown, at page 14, in this bluebook thing. This is based on Iron and Iron Age, and I do not know what that one is based on.

But you will notice that in 1961, through that peak on exports, one of the things that we have stated today is that we have no objection to export of scrap. You spoke about the west coast and east coast, and we are not asking that it be eliminated entirely. There are times, for example, in 1961 where there was, I think it was, 9 million tons that year, and it caused no shortage. There have been other times, in 1955, 1960, and so on, where it was less, but there was a shortage. You say 7 million tons. What is the steel industry buying; what is the world situation? Seven million can be perfectly adequate, as we have seen many years here, but there can be other times when 7 million would guarantee shortage. So, you ask what would be the effect? All I can say is: What is the demand for steel at that time? In an international shortage, it will guarantee a scrap shortage in this country.

Mr. REES. Well, 7 million is what you were talking about, as your request.

Mr. AIKEN. That is what was referred to by the industry, in an effort to try to get something done to ease the situation.

Mr. REES. Mr. Berman?

Mr. BERMAN. Well, we feel that the imposition of any quota would serve as having a downward effect on the domestic market, because, then, you are, in essence, placing control on the free movement of materials. As the price of scrap declines, the supply also declines. It works that way, and it worked that way 3 years ago when the same request was made for an imposition of the Export Control Act, just about the same time of the year, and we stated that we felt that this was simply a peak demand in a short period of time, and that the supply would catch up with it in a longer period of time and that price would decline. It happens just exactly that way.



The imposition of a control, psychologically, would force a market down, and when you force this market down, this same flow that you are trying to develop to satisfy the peak demand will dry up right along with it, and will, I think, defeat your purpose.

Mr. REES. I will ask one more question, and the answer could be in writing, as we are running very late, and I think some of the members are going to the Asian bank meeting.

If the Japanese pay as much, and in the long run more for their steel scrap than we do, because they are importing it and we are not, and if we have progressive companies, such as Lukens which has spent \$150 million in modernizing its shop; then how can the Japanese undersell U.S. steel companies on the price in, say, the west coast?

That is something that you might think about and reply to. I have gotten volumes of material on this.

Mr. MULLESTEIN. I think we can answer very quickly. Not necessarily the Japanese but, as far as some of the European countries, the mills right now have several dumping charges for dumping at the European mills for the fact that they are selling in their home market at a much higher price than the domestic market, and it especially come to dumping it in the Japanese situation. Our ability to ship to Japan is essentially closed to us. We cannot get in there, and, as a result, they keep their price and rig their price in their home market, and then benefit by setting a price that is necessary for them to get the export market in this country.

Mr. REES. Maybe in the next trade rounds we should insist that reciprocal trade be reciprocal.

Mr. MULLESTEIN. Exactly right. For instance, you take the Mexican situation. There is a suit right now by U.S. Steel and others for dumping of plates into the Southwest. You cannot ship into Mexico any steel at all from the United States. If it is produced in Mexico, the border is closed. By the same token, the price they get in their home market for the same product they are sending into Texas is higher than what they are selling in Texas for, because they want that balance of trade and they want the export market, and there is a suit on right now on that subject.

Mr. BROWN. Well, has Treasury done an appraisal?

Mr. MULLESTEIN. They are looking at it right now.

There is also a suit against Sweden for dumping of stainless products.

Mr. BROWN. The Japanese did this with respect to black and white component parts of television sets, and we got into this in my district.

Mr. MULLESTEIN. I was merely answering Mr. Rees' question.

Mr. REES. Well, gentlemen, I am sorry that we do not have another day for this, because I think the committee appreciates the back-and-forth discussion.

I cannot tell what hearings we might have in the future. But I suspect it might be good to talk to Commerce and Treasury, and, perhaps to Mr. Flanigan.

But I wish to thank you very much for your participation. I think you have been a fascinating panel, and I hope the committee will take the right action.

[The following statement was received by the subcommittee for inclusion in the printed record:]

STATEMENT OF M. J. MIGHDOLL, EXECUTIVE VICE PRESIDENT OF THE NATIONAL ASSOCIATION OF SECONDARY MATERIAL INDUSTRIES, INC.

My name is M. J. Mighdoll and I am the Executive Vice President of the National Association of Secondary Material Industries, Inc., (NASMI). We take this opportunity to submit this short statement to the House Banking and Currency Committee in opposition to H.R. 5769 which seeks to amend the Export Administration Act of 1969.

NASMI is the trade association which represents the metal, paper, textile, rubber and plastic recycling industries of the United States. Its 700 members include those firms which recover, process, convert, refine and export a wide range of recycled solid waste commodities, principally metal scrap, paper waste, and textiles. Its membership also includes many of the nation's leading manufacturing companies which purchase recycled materials for utilization in products for both domestic consumption and export.

We believe that the Export Administration Act of 1969, as amended in 1972, contains sufficient and explicit legislative authority and direction to control export activities as may be necessary, and therefore does not require the amendment proposed by H.R. 5769.

Congress is and has been vitally concerned with the solution of the mounting solid waste problem whose challenges are becoming critically more urgent with each day. When it approved the Resource Recovery Act of 1970, Congress expressly directed that all federally-sponsored disincentives to recycling should be eliminated at the earliest possible date. Congress currently is investigating such disincentives as (1) existing Federal tax policies which directly inhibit the recovery, domestic use, and export of recycled materials and (2) discriminatory and inequitable rail and ocean freight rates which limit and restrain the domestic and export shipment of recycled materials.

The Export Administration Act wisely does not place any unnecessary, unfair, or arbitrary restrictions on the export movement of recycled materials. Rather, that Act clearly provides authority for controlling exports. The Act states: "It is the policy of the United States to use export controls to the extent necessary to (a) protect the domestic economy from the *excessive drain of scarce materials* and to reduce the *serious inflationary impact of abnormal foreign demand*." (50 U.S.C. App. § 2022, emphasis added)

In late 1965 there was a threatened shortage of copper materials due to intensive defense requirements and the reduced availability of materials due to labor strikes. At that time the Administration effectively moved to control the export flow of copper materials, and formally instituted export quotas within a matter of a few days. At a later date when nickel availability was reduced due to closed mines, the Administration again quickly and effectively moved to an export limitation program.

We believe, however, that the enactment of H.R. 5769 would restrict the export of recycled materials through the stimulation of "false alarm" conditions and the potential misapplication of so-called short supply guidelines. Such action would be inimical to reducing the solid waste problem in the United States and would run counter to the best interests of the nation by aggravating its current monetary and balance of payments problems.

H.R. 5769 states: "(e) The Secretary of Commerce, in consultation with appropriate United States Government departments and agencies and any appropriate technical advisory committee established . . . shall undertake an investigation to determine which materials or commodities shall be subject to export controls because of the present or prospective inflationary impact or short supply of such material or commodity in the absence of any such export control. The Secretary shall develop forecast indices of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users at stable prices."

This process, as proposed in H.R. 5769, is already embodied in the Export Administration Act and has been effectively used on a number of occasions to invoke export controls on certain commodities. The Department of Commerce now has the authority to investigate situations involving "inflationary impact of

abnormal foreign demand" or "short supply". It has comprehensively analyzed all relevant conditions whenever the need arose in the past, in response to any legitimate threat of short supply or severe inflationary condition. at the present time a very thorough review and analysis is being conducted relative to the export of scrap iron and steel commodities. The Commerce Department also regularly develops business trend forecasts and has been in continuing economic dialogue with representative industry groups on both a formal and informal basis.

This amendment would only focus unnecessary and disproportionate attention on certain commodities, which because of their traditional market cycles, are subject to more intensive pulls of demand-supply. It would thus unfairly and unjustly single out such commodities for discriminatory export restrictions. We have pointed out in a number of past statements before Congressional committees that the history of export controls in the nonferrous metals industry is replete with incidents in which export controls were placed on certain commodities to cope with an emergency condition but were maintained in force over an unreasonably long period of time without any justification. One case in point is the export restriction for nickel alloy and stainless steel scrap, which the Commerce Department finally removed only last year. This action came only after a period of many months during which there was abundant supply of the commodity and prices had dropped well below price levels that could even vaguely be considered inflationary.

Today, with the appropriate emphasis of the Federal Government on export *expansion* rather than on export *contraction*, the Congress should not inhibit or restrict movement of materials to foreign countries which are often surplus to domestic needs and the export of which would significantly aid the balance of payments situation.

Legislation that tends to create an atmosphere of export limitation rather than expansion is contrary to the stated and oft-repeated policies of both the Administration and the Congress.

Finally H.R. 5769 gives the Secretary of Commerce authority to appoint a technical advisory committee to investigate the state of our commodity called into question by "representatives of a substantial segment of any industry which processes materials or commodities which are subject to export controls or are being considered for export controls because of the present or prospective domestic inflationary impact or short supply. . . ."

However, as noted, the Export Administration Act already contains such safeguards and procedures, and this amendment would simply engender controversy over every momentary market development whenever some segment of industry has a difference of opinion.

In the light of current interest in solving the solid waste problem through greater use of recycled materials in international markets, in terms of the desirability of encouraging an improved balance of payments and monetary situation through export expansion, and in view of the fact that the Export Administration Act already contains sufficient safeguards and authority to control the movement of materials whenever necessary, we respectfully urge the committee to take no affirmative action on H.R. 5769.

[Whereupon, at 12:30 p.m., the subcommittee adjourned, subject to call of the Chair.]

## SHORT SUPPLY/ANTI-INFLATION EXPORT CONTROLS

TUESDAY, MAY 15, 1973

HOUSE OF REPRESENTATIVES,  
SUBCOMMITTEE ON INTERNATIONAL TRADE  
OF THE COMMITTEE ON BANKING AND CURRENCY,  
*Washington, D.C.*

The subcommittee met, pursuant to recess, at 10:15 a.m., in room 2222, Rayburn House Office Building, Hon. Thomas L. Ashley (chairman) presiding.

Present: Representatives Ashley, Koch, Mrs. Sullivan, Blackburn, Brown, and Frenzel.

Mr. ASHLEY. The subcommittee will come to order.

Today we continue hearings on H.R. 5769, legislation designed to protect the domestic economy from the excessive drain of scarce materials and commodities and to reduce the serious inflationary impact of abnormal foreign demand.

The subcommittee has previously received substantial testimony from public witnesses indicating that the sharply increased prices being paid for unstable market conditions in such important industries as lumber, tanning, steel, and in the grain trade and that each of these segments of the economy has been impacted by sharply increased and uncontrolled exports.

The Department of Commerce, in its most recently published quarterly report on the administration of export controls for the fourth quarter of 1972, gives no evidence that the Department has even been monitoring the sales of a number of materials and commodities currently or prospectively in short supply. There is a need to give the administration a clear indication that it is the intent of Congress with respect to short supply and domestic inflationary impact set forth in the Export Administration Act of 1969, be much more effectively implemented.

The effective implementation of the Export Administration Act was dramatically brought to the fore last year in discussions with which some Members of Congress had with Soviet officials subsequent to their extraordinarily large wheat purchases. The Soviets reminded us that we had not learned a lesson that the Canadian and Australian Governments and grain producers had learned. There, the government has established a central marketing agency through which foreign purchasers must deal. This enables the governments, the exporters and the producers in those countries to know precisely the kind and amount of grain being purchased by foreign buyers at any given time. By contrast, the Soviet grain buyers are able to come here, even now, and approach our private grain exporting companies and individually to make deals without sufficient information being made

available to both the processors and the users of essential foodstuffs. The result has been a sharp increase in domestic prices for products made from one of life's very essentials.

In the case of still another commodity, hides, sharp upward fluctuations, based in large part on foreign demand, have brought increased difficulty to domestic industries which process leather goods in the face of already severe international competition.

The subcommittee has taken public testimony and received other evidence indicating sharply increased prices of ferrous scrap and a prospective crisis in the domestic supply of this material for the steel industry in the face of uncontrolled exports.

The imposition of controls on the export of domestic materials necessary to assure essential quantities of such material to a domestic producing industry during periods when the domestic prices of such materials is held below the world price as part of a government stabilization plan is one that is explicitly envisaged in Article XX of the General Agreement of Tariffs and Trade. Such a plan, fashioned in one way or another, has been in operation in this country now since August 1971. However, with the successive devaluations which have been prompted by the administration as part of that economic policy, the effects of markedly altered exchange rates which have resulted in abnormal foreign demand for a whole range of commodities is a matter which apparently had been overlooked.

This morning we meet to take testimony from Administration witnesses. They are: Mr. Gary M. Cook, Deputy Assistant Secretary and Acting Director, Bureau of Competitive Assessment and Business Policy, Department of Commerce, and Mr. Raymond Ioanes, Administrator, Foreign Agriculture Service, Department of Agriculture, accompanied by Mr. Dwight Hair, Deputy Director, Forest Economics and Marketing Research. Mr. Cook, will you proceed first.

**STATEMENT OF GARY M. COOK, DEPUTY ASSISTANT SECRETARY  
AND ACTING DIRECTOR, BUREAU OF COMPETITIVE ASSESSMENT  
AND BUSINESS POLICY, DEPARTMENT OF COMMERCE, ACCOMPANIED BY WILSON SWEENEY, ASSISTANT DIRECTOR OF THE  
OFFICE OF EXPORT CONTROLS**

Mr. Cook. Thank you, Mr. Chairman. The Department of Commerce appreciates the opportunity of appearing before you today to testify on H.R. 5769. If you wish, rather than read through my prepared testimony, I can merely summarize it and submit the testimony in full for the record.

Mr. ASHLEY. Very well. We got this late last evening and, therefore, I haven't had a chance to review it, so I hope that you will amplify on the important areas so that we will have that.

The statement will be in the record.

Mr. Cook. I would like to start out by indicating that the Department of Commerce is in complete sympathy with at least two of the ideas expressed in H.R. 5769, with the first being the idea of an early warning system to forecast changes in domestic demand and supply, and the second being the necessity of consulting with industry and other groups.

However, we do have some reservations with respect to specific provisions of the bill as it is presently set forth. First, as we understand the bill, it appears that it would allow export controls to be used as a price control device even in the absence of specific shortages of commodities. Under those grounds, we would have to oppose the bill, first, because we believe that the three criteria in the present Export Administration Act, namely, scarcity, inflationary impact, and the question of abnormal foreign demand, should all be weighed in determining whether or not export controls should be applied.

Further, there is some question in our minds as to whether or not under article 20 of GATT, export controls could be used as a price control device and yet not be inconsistent with that article of the General Agreement of Trade and Tariff Treaty.

Second, we are also opposed to the bill if it is intended, as we understand it is, to preclude our being guided by the Secretary of Agriculture with respect to decisions when applying export controls on agricultural commodities, because it appears to us that the Secretary of Agriculture as well as the secretaries of other Departments do have a strong interest and a great deal of expertise in a number of the commodity areas in which we are asked to apply short supply controls.

Third, we also have difficulty with the provision in the bill which requires the Secretary of Commerce to establish advisory committees at the behest of industries. It appears to us that the provision in the present legislation which allows the Secretary of Commerce, in the case of controls to be applied for national security reasons, to form such committees if he deems it necessary to better understand whether or not controls should be applied would be most appropriate in the case of short supply controls as well.

Fourth, while as I said we sympathize with the idea of developing forecast indices of demand—and I can go into greater detail about that in a few moments—we frankly feel it is impractical to require a development of such indices by congressional mandate. We are trying within the Department of Commerce at the present time to develop such indexes, and they would, of course, be of great help in determining whether to apply short supply controls, but for most commodity groups, it appears that at the present time we have neither the methodology nor, in some cases, the available facts and information which would allow us to do an effective and sound job of providing such indexes.

With respect to specific short supply problems, which are presently before the country, and commodities which appear to be engendering inflationary pressures, we have been giving close attention to a number of these commodity areas, including specifically softwood logs, ferrous scrap, and cattle hides.

Taking the latter first, as you probably know the price of cattle hides has declined over the past several months even though, I might add, our exports have gone up during that time. With regard to softwood logs, our latest information is that prices have gone down rather substantially over the last several weeks and, in fact, in the last week, prices went down to the greatest extent since the beginning of the decline, which began about 4 weeks from today. In addition, we might point out that the future prices for logs also appear to be declining.

There is one exception, I might add, to that decline in softwood lumber prices, and that is found in the prices of some of the species of Southern softwood, a situation which appears to be largely as a result of the weather conditions in the South, but I am sure that Mr. Ioanes can speak more definitively about that area.

The iron and steel scrap situation continues to concern us, and we have had a number of discussions with the Cost of Living Council and with the Special Trade Representative's office and the Council on Economic Policy about this. As a result of these discussions, and as a result of conversations with people from industry, we have taken two actions in the last week to attempt to better understand what the situation is with regard to ferrous scrap. First, it has appeared to us that the price of ferrous scrap is affected not only by actual shipments of scrap on a monthly basis, but also by the pattern of purchases and orders presented. As a result, the Secretary of Commerce last week announced that he was going to require scrap exporters to indicate to the Department the pattern of both orders and expected shipments over the next year's period of time, and to report on a weekly basis any changes in that pattern of orders or in the pattern of shipments as it occurs.

Second, the Cost of Living Council—that is, Mr. John Dunlop—in the last week announced that the Cost of Living Council is going to begin a fact-finding investigation of ferrous scrap processors and brokers to analyze the cost justification data which will be gathered by the IRS and to attempt to pull together more information about scrap supply and scrap demand factors, the capacity within the industry, and the extent to which exports appear to be impacting upon the prices of the commodity domestically.

In conclusion, we do believe that short supply controls should be used only sparingly, and that they should be used only when the national interest clearly outweighs our balance of trade and our general foreign policy interests. It appears to us——

Mr. ASHLEY. I didn't hear that.

Mr. COOK. I said only when it outweighs our balance of trade and foreign policy interests. And we believe that we are doing the best possible at the present time to appropriately weigh those considerations in the context of whether or not to apply these controls on commodities that have been under discussion in the last several months.

Thank you, Mr. Chairman.

[Mr. Cook's prepared statement follows:]

**PREPARED STATEMENT OF GARY M. COOK, ACTING DEPUTY ASSISTANT SECRETARY FOR COMPETITIVE ASSESSMENT AND BUSINESS POLICY, U.S. DEPARTMENT OF COMMERCE**

I appreciate the opportunity to appear today before this subcommittee on behalf of the Department of Commerce to discuss H.R. 5769—to amend the Export Administration Act.

I should like to say at the outset, that we are in complete sympathy with what we take to be the main objectives of this bill—to provide an early warning system in situations which may call for some degree of short supply controls and to insure consultation with industry groups. We have endeavored, in the past, to anticipate and monitor problems of this kind, and I believe that, on the whole, we have succeeded.

The principal problem with respect to short supply controls is that there is frequently a deep division, as between producers and consumers, and their

opposing views must somehow be resolved in the larger interest of the Nation as a whole.

Viewed in the light of these major objectives, we have some reservations about H.R. 5769.

First, the bill appears to be an effort to simplify the test for short supply controls and to relax the criteria being applied to assess the need for such controls. The Department of Commerce now weighs three factors in assessing the need for short supply controls—is the commodity in *short supply* domestically, and under serious *inflationary pressure*, and are these conditions attributable to *abnormal foreign demand*? This is the test we apply. It is on the basis of such an assessment that we have, in the past, invoked our control authority under the Export Administration Act, and we believe that these factors should continue to be applied in most considerations of short supply controls. The bill implicitly seems to assume that export controls are a price control device in the absence of proven shortages. We do not believe controls can be justified solely on such grounds, particularly in the present state of our balance of payments. Moreover, the imposition of export controls in the absence of a demonstrated domestic shortage might be challenged by other GATT members as being in violation of our international obligations. Under Article XX of the GATT, restrictions on exports are only permitted for certain stated purposes.

Secondly, it would delete the present section 4(e) of the Export Administration Act, which provides special treatment for agricultural commodities before they may be placed under short supply export controls. This section now requires the approval of the Secretary of Agriculture before controls on exports of agricultural commodities may be imposed. Moreover, the Secretary of Agriculture shall not approve such an export control if he determines that the supply of the commodity exceeds domestic requirements. Even before the Congress required the prior approval of the Secretary of Agriculture in the Export Administration Act Amendments of 1972, we made it a practice to seek guidance from the Secretary of Agriculture before imposing export controls on agricultural commodities. We do not construe the bill as precluding the Department from being guided by the Secretary of Agriculture in such cases. If such were the intention, we would oppose this provision.

Thirdly, the new section 4(e) would require the Secretary to consult with appropriate Government departments and appropriate technical advisory committees when considering the imposition of a short supply control. This has generally been the practice of the Department for over 20 years, but this bill would extend the procedure of using formal industry advisory committees for national security controls to short supply controls. Under Section 5(c) the Secretary is required to establish a security controls advisory committee *only* if he determines that there are technical matters and other questions which are difficult to evaluate (as in high technology areas). This bill would give him no discretion as to whether or not to establish an advisory committee for short supply controls. Where short supply questions are involved, we believe that the Secretary should be vested with the same discretion he has with respect to security controls. He is best situated to decide if a formal method of obtaining industry advice is essential. Under the Federal Advisory Committee Act, the Secretary could establish such a committee if he felt the need for such a formal body to advise him.

In addition, the bill would require the Secretary of Commerce to "develop forecast indices of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users at stable prices". This language gives us concern for three reasons.

First, past attempts to develop such indices have encountered severe methodological problems. For example, the Bureau of Competitive Assessment and Business Policy examined the major factors which influence the supply/demand for softwood lumber and plywood, with the hope of developing an economic model that could predict price changes in the short-term—less than one year. There are many unquantifiable variables that affect the supply and demand for these products and there does not appear to be any practical means of making such projections. After several man-months of effort, we dropped the project. It is our understanding that the Forest Service has researched the feasibility of short-term price projections for lumber products and has found no practical way of accomplishing this.

To the extent the available data permit, we attempt to anticipate changes in demand, supply and price, by regular as well as spot surveys and by monitoring the principal markets.



The bill would require development of indices only of domestic demand. For the commodities on which questions will be raised, however, the foreign demand will be at least as important as domestic demand. Indeed our problems with respect to softwood logs, hides and skins, and ferrous scrap are alleged to be connected with developments in foreign demand.

Moreover, a rise in the demand indices (if it is intended that they be published) is likely to have a circular effect—a rise in the indices may result in cautionary buying and stockpiling, which will in turn raise the indices.

These, then, are the central problems that this bill presents with respect to our general responsibilities under the Export Administration Act.

As you are well aware, there have been a number of legislative proposals made on behalf of certain industries experiencing supply problems. Accordingly, I should take this opportunity to discuss and comment upon some of these problem areas.

#### SOFTWOOD LOGS

First, let me deal briefly with softwood logs.

Softwood lumber and softwood plywood are important components of residential construction. Softwood lumber and plywood represent about 12 percent of the construction price of a detached single family housing unit. About 40 percent of softwood lumber and 56 percent of softwood plywood consumed in the U.S. are used in residential construction.

During the past two years, demand for softwood lumber and plywood has been stimulated largely by the record-setting pace of U.S. construction of housing. During 1972 the year's housing total reached 2.4 million units of which 1.3 million were single family structures. The outlook for housing starts (not including mobile homes) in 1973 is for approximately 2.2 million new units, a reduction of approximately 10 percent from 1972.

For the first quarter of 1973, preliminary Census data showed that privately-owned housing starts were 4 percent below the first quarter of 1972. Total privately owned housing starts in March 1973 were at an annual rate of 2,259 thousand units, on a seasonally adjusted basis, down 3 percent from the comparable rate in February 1973, and 10 percent below the March 1972 rate.

The 1972 record housing year was also a record year for U.S. softwood log exports. These exports increased from 450 million board feet in 1962 to more than 3.0 billion board feet in 1972. Exports to Japan increased from 326 million board feet in 1962 to 2.5 billion board feet in 1972. However, in terms of percentage of domestic production, 1972 exports of logs apparently did not exceed the 1970 peak of 7 percent.

First quarter 1973 softwood log exports exceeded the figure for the like 1972 period by 29 percent. However, in March 1973, exports rose only 7 percent over the March 1972 figure.

According to U.S. Forest Service figures, softwood sawlog consumption (including exports) increased from 47.2 billion board feet in 1970 to 56.8 billion board feet in 1972—an increase of 9.6 billion feet. Of this increase, 8.5 billion feet was a result of increased domestic housing requirements. The remaining 1.1 billion board feet represents increased requirements from all other consumers. Softwood log and lumber exports increased from 4.4 billion board feet (lumber equivalent) in 1970 to 5.0 billion board feet in 1972—an increase of 0.6 billion board feet. Therefore, softwood log and lumber exports contributed about 6.3 percent of the increased annual consumption of softwood sawtimber; whereas, housing demand represents about 88.5 percent of the increased requirements. The remaining 5.2 percent of the increased consumption is attributed to other uses such as non-residential construction, industrial, materials handling, etc.

The U.S. Embassy in Tokyo and Washington officials have discussed with officials of the Japanese Government and importers the price pressures in the U.S. on softwood logs and lumber, and relationships between these price pressures and U.S. softwood log exports to Japan. Japanese officials indicated that they are aware of the problem and are taking and will be taking a series of actions to ease these pressures. Japan is seeking increased imports of softwood lumber and logs from other sources, such as Canada and the Soviet Union. It is now contacting these other sources and may send trade missions to these countries in the near future to accelerate imports. The Japanese Government believes its log import situation has stabilized.

The Cost of Living Council announced on March 26 that the Secretary of Agriculture has established an interagency team to assure a total annual production of 11.8 billion board feet of logs from the National Forests in 1973 and to develop

specific action plans for higher outputs in 1974 and 1975. Announcement of the specific action plans for 1974-75 are anticipated shortly. The Council held public hearings on April 4-6 concerning the lumber situation.

Movement of timber has been hampered by shortages of railroad cars. There are indications, however, that the freight car situation has shown some improvement during recent weeks, though the Mississippi floods have had a serious effect in certain areas.

The price situation appears to be improving. The Department maintains a weekly softwood product price survey using private price reports. Since the middle of April, the average price for western species (11 bellwether lumber items) has declined. The Bureau of Labor Statistics Wholesale Price Index for April showed a rise but the rate of increase was substantially lower than in previous months. Futures trading for the past few weeks has also shown price declines for both lumber and plywood for future deliveries. Future price movements will depend upon many factors including weather and fire conditions, transportation problems, environmental policies, availability of logs from National forests and other public lands, and labor supply, as well as exports. The impact of these factors is not readily foreseeable. However, the expected decline in housing starts, and anticipated Japanese restraint should result in lower lumber prices. This area continues to receive our close attention.

#### FERROUS SCRAP

A resurgence of steel production and ferrous scrap demand in the U.S. and abroad, and increasing U.S. exports of scrap are resulting in rising prices and pose the possibility of shortages for this material in the future. The steel and ferrous foundry industries have asked the Department to require licensing for ferrous scrap exports and to limit total 1973 exports to 7 million net tons.

The cost of scrap represents a significant part of the cost of producing raw steel. The impact of higher scrap prices is greatest on companies which utilize electric furnaces only and are almost totally dependent (97 to 99 percent) on scrap as a source of their raw material. Many of these are small companies specializing in concrete reinforcing bars and bar-size shapes for use in construction. The impact on the large integrated producer making hot metal (pig iron), and utilizing steelmaking furnaces using only about 28 to 45 percent scrap charge, is not nearly as great. For the electric furnace operator the cost of scrap represents about 60 percent of the total cost of making raw steel and 20 to 30 percent of the cost of finished steel depending on the mill product made for sale. Therefore, if prolonged, higher scrap prices would have a serious impact on this segment of the steel industry. The impact of higher scrap prices on producers of iron and steel castings (most of which are small companies) is similar to electric furnace steelmaking. Steel castings producers utilize about 97 percent scrap in their furnace charge while iron castings producers use about 66 percent scrap.

Exports account for a large part of the total sales of many U.S. scrap processors. Sales abroad as a percent of total sales have ranged from a low of 13.8 percent in 1966 to a high of 27.7 percent in 1961, and were 23.3 percent in 1970 and about 16 percent in the last two years.

Ferrous scrap prices are now rising after declining for the last ten weeks from the recent high reached in early February of this year. After staying at \$50.50 per gross ton for 5 days, the American Metal Market composite price for No. 1 Heavy Melting Steel Scrap (Pittsburgh, Chicago, Philadelphia) rose on May 10, to \$51.17, reflecting an increase of \$2 at Philadelphia. Record prices for ferrous scrap were recorded in December 1956 when the composite price of No. 1 Heavy Melting Steel Scrap averaged \$65 per gross ton for the month. Current prices are the highest since then.

Scrap prices are tending upward again because domestic and foreign buyers, which had been out of the market, have renewed their buying.

Actual exports of ferrous scrap totaled 7.4 million tons (\$244 million), 18 percent above 1971 but 29 percent below the record 10.4 million tons in 1970. Sales abroad in the first quarter of 1973 were 2.8 million tons (or at an annual rate at 11.3 million tons), a record for the first quarter. Japan is the principal destination for exports taking 50 percent of the total in 1970, 30 percent in 1972 and 53 percent in the first quarter of this year. Other important markets for U.S. scrap include Canada, Mexico, Italy, Spain, Taiwan and South Korea.

If the heavy demand for scrap continues and scrap prices continue to rise, steel mills and foundries will undoubtedly attempt to increase their selling prices.

The Administration has taken two actions within the past few days, in response to price rises in ferrous scrap. On May 8, the Secretary of Commerce announced a reporting procedure under which information on export shipments of ferrous scrap and pertinent data on orders for export of 500 short tons or more will be made promptly available to the Department. Assurances have been received from major scrap exporters that the exporting community can comply with this approach to reporting without undue burden.

The Secretary said he is "extremely concerned" about recent price increases in this material and the potential inflationary effects which such increases may have on the steel and ferrous foundry industries and the economy as a whole.

He reaffirmed our concern and the need for obtaining better and more up-to-date information on ferrous scrap in letters to several prominent leaders in the steel and ferrous foundry industries.

On May 10 the Cost of Living Council announced that it will conduct a fact-finding survey of the nation's largest producers and brokers of scrap iron and steel. The survey, to be conducted by the Internal Revenue Service, emanated from joint Commerce Department and Cost of Living Council discussions on the rising price of scrap iron and steel.

The Internal Revenue Service will contact the major firms engaged in scrap processing and distribution in order to gather cost justification data bearing on recent price increases.

The Council plans to study the economic implications of current and prospective steel scrap supplies, demand conditions, the industry's overall capacity, and the influence of exports on the price of scrap.

In commenting on the survey, Council Director, John T. Dunlop stressed that the survey should not be considered punitive nor necessarily the first step toward Council action on scrap steel prices. However, the information from this study could facilitate any action which might be necessary in order to alleviate price pressure in this industry. It is expected that the survey will be completed in June. The actions taken, without additional statutory authority highlight the fact that it is possible to collect the data necessary to keep informed on current and future export trends without amending the Export Administration Act.

#### CATTLEHIDES

Cattlehides are the most important raw material in the domestic production of leather. The major consumer of U.S. cattlehide leather is the shoe manufacturing industry which consumes about 80 percent of leather production. The remaining leather production is consumed by manufacturers of products such as upholstery for automobiles and furniture, apparel, handbags, gloves, and many other products.

Argentina, the world's second largest producer of cattlehides, next to the United States, placed a complete embargo on hide exports in May 1972. Brazil, India, and Colombia took similar actions, adding additional pressure on the U.S. market.

The Department acted under the Export Administration Act to control hide exports in July 1972. In extending the Act, scheduled to expire on August 1, 1972, Congress specifically terminated the controls on hide exports before the controls became operational.

The peak in prices was reached in late 1972. Thereafter prices began to decline and there was an almost continuous drop in prices through March 1973. During April, prices of heavy hides rose somewhat, partly as a result of reduced slaughter during the meat boycott. On May 1 prices were about 15 cents per pound below their peak of several months ago. This may indicate some softening in foreign demand, though official export data do not yet show a drop.

Prior to the price increase in cattlehides, the cost of *raw* hides represented 45 percent of the tanner's production cost, and the cost of *leather* in a pair of all-leather shoes amounted to about 15 percent of the manufacturer's selling price and 8 percent of the retail price. However, with the escalation in hide prices, this ratio has changed. In June 1972, raw hides represented 60 percent of the tanner's production cost, and the cost of leather in a pair of shoes amounted to about 21 percent of the manufacturer's selling price and 10 percent of the retail price.

In conclusion, let me stress that in our view, export controls should be used sparingly. They constitute an impediment to free trade and have an adverse impact on our balance of trade. Accordingly, export controls should be imposed only when the national interest clearly outweighs these considerations. We

believe that full consideration must be given to domestic supply-demand relationships, as well as the important international political and economic questions involved. We should bear in mind that wherever export controls are imposed to the benefit of one segment of U.S. industry, it is usually to the detriment of another segment of industry. This is why the Congress has wisely decreed that the short supply authority of the Export Administration Act should only be invoked when absolutely necessary.

Mr. ASHLEY. Thank you very much, Mr. Cook. We will certainly be back in a few moments with some questions.

I think we will now hear from Mr. Ioanes, Administrator of the Foreign Agricultural Service with the United States Department of Agriculture.

**STATEMENT OF RAYMOND A. IOANES, ADMINISTRATOR, FOREIGN AGRICULTURE SERVICE, DEPARTMENT OF AGRICULTURE, ACCOMPANIED BY WAYNE W. SHARP, DEPUTY ASSISTANT ADMINISTRATOR FOR COMMODITY PROGRAMS, AND DWIGHT HAIR, DEPUTY DIRECTOR, FOREST ECONOMICS AND MARKETING RESEARCH**

Mr. IOANES. Thank you very much, Mr. Chairman. In addition to Mr. Dwight Hair of the Forest Service I also have with me Wayne W. Sharp from our organization who is Deputy Assistant Administrator for Commodity Programs.

We are happy to be here to testify on H.R. 5769.

What we are here today to do is to tell you what we believe to be the problem we would face with export controls in general, and in particular what those controls might have as affecting the position of American agriculture in the current situation. We believe that the control authority under the present Export Administration Act is sufficient to protect the economy from an excessive drain of scarce materials and severe inflationary impact from abnormal foreign demand. As Mr. Cook said, short supply export controls have been used sparingly in the past as we have been reluctant to impose export restrictions which would interfere with market forces.

To fully appreciate the effects export controls would have on U.S. agriculture, it is necessary to think about the situation facing farmers in this unusual year. Beginning last fall, when it became apparent that demand was strong, the United States Department of Agriculture took a number of actions to release Government-controlled commodities and to encourage increased production in 1973. I will not detail these actions, except to say that about 1.8 billion bushels of Government-controlled grain was moved into the market, and in a series of steps our agriculture was generally freed of acreage restraints for the 1973 current crop year.

As this year began, early reports of planting intentions indicated that farmers were responding extremely well to the incentive of additional acres available and the rise in prices. An expansion in planted acres of some 25 million was indicated, which would be the largest 1-year acreage expansion in history. Additional corn plantings of 7 percent, and additional soybean plantings of 14 percent were in prospect, with a total wheat acreage this year about 8 percent above 1972. Moreover, it was apparent that cattle producers were expanding

breeding herds with a goal of greater beef production in the years ahead.

With the beginning of spring, it became apparent that farmers were facing difficulties with respect to both crops and livestock.

Severe weather in late winter caused losses of cattle—and sharply reduced weight gains in some feeding areas. Extended rains in the Mississippi Valley delayed planting of corn, cotton, and other crops, and brought flooding that has inundated at least 8 million acres of cropland. Millions of acres are still too wet to plant.

The next few weeks will be critical for farmers who are trying to get their crops in and to respond to national goals of increased production. Planting will require additional effort and additional investment as they try to make up for lost time. We in the Department continue to be hopeful that Midwestern and Southern farmers, with their resourcefulness and superior technology, will be able to make up most of the time they have lost. We cannot predict the weather, of course, but there are grounds for optimism provided farmers get relief from these protracted rains.

Much depends, however, on farmers' confidence. If the Government says to the farmer that now it is going to limit exports of his products, are not we really saying to him that he cannot count on having markets for the increased production his Government is asking? Even to consider export controls at this time would be to discourage the efforts of farmers to expand plantings. To weaken the farmer's determination to expand production would be to defeat the very objectives that are sought by those who favor export controls—that is, larger supplies at stable prices.

Remember that soybean farmers for some years have depended on overseas customers to take more than half their production—and in most years the same is true of wheat. Corn and grain sorghum farmers have also built important overseas markets over the years, with the help of their own producer organizations, and they certainly feel that they are entitled to protect their positions as world suppliers.

The implications of this are just as important to the American public as a whole as they are to agriculture. Viewed in the longer term, our agriculture will be much better able to provide the Nation with abundance at reasonable prices if it is able to fully utilize its production plant. We have come a long way toward returning to farmer control the 60 million or so acres that in other years were diverted from production under a variety of Government programs.

The typical American farmer is a businessman who likes to produce. Like other businessmen, he can produce much more efficiently if he is making optimum use of his production base. Many of his costs are fixed, and the added acres can be planted at a lower per unit cost. Hence the plantings made possible by the existence of a large export market enable the farmer to lower his unit costs and maximize his net income; at the same time, they help make it possible for consumers to have abundant food at reasonable prices.

What I am saying is that those who seek expanded exports and those who seek expanded food supplies for our own people are really striving for the same goal. There is no contradiction between a liberal trade system that allows commodities to move between nations—and a continuously expanding agriculture that provides a growing Ameri-

can population with abundance at fair prices. In fact, the two are essential to each other.

Having outlined what the Department considers to be the very real dangers in the threat of export controls, let me say that American consumers would have little or nothing to gain from such a limitation on trade, even in the short term. If exports of grains and soybeans were to be limited, this would have little immediate effect on meat and poultry prices or supplies, and the more likely result would be to limit plantings of these crops in the United States. And if export controls were to be placed on meat this would be like playing marbles in a game where other countries have most of the marbles.

The growth in demand for red meats is not a U.S. phenomenon—it is a world phenomenon. Retail prices in most other importing areas of the world, Western Europe and Japan for example, are much higher than they are in the United States. This reflects the growing purchasing power of their consumers as contrasted with the limiting factors in animal production.

Over the years, the two-way trade in meat has greatly benefited U.S. consumers, since we import so much more meat than we export. For example, our imports of beef are over 30 times our exports. In this calendar year we estimate that we will import over 1.4 billion pounds of chilled and frozen beef, and much of this is coming from countries that recognize the importance of maintaining exports to this country in order to preserve the market for the future. If we should now limit our exports of beef to other countries, would it not be a signal to these countries that they could reduce shipments to the United States in order to take advantage of high prices at home or nearer to home? Some of our major suppliers of meat are under pressure to limit their beef exports to the United States. Do we want to furnish them the example that can be used against them politically to force them to take the final step?

Agricultural exports are contributing markedly to the American economy—to employment, to incomes, to gross national product, and to our international payments position. At a time when the overall trade balance is in sharp deficit, our agricultural trade in this fiscal year will contribute a positive balance of more than \$4.5 billion to our international trade account.

Moreover, U.S. agriculture is in such a position of strength in world trade that it can continue to aid this Nation's economic position in a unique way. Clearly, U.S. agriculture could not be making these strong gains in world trade competition if our prices were high in relation to other countries of the world.

But American farmers can respond adequately to demand growth only if they are satisfied that their markets are not going to be artificially restricted by their own Government. Even with the rise in farm prices this past year, farmers are still at an income disadvantage relative to city families. Their capital and operating costs are high. Their risks are great. Their prices are subject to fluctuation.

Farmers want to produce, and these intentions are being undergirded by the current strong prices. But if the Nation moves to curtail exports even before farmers have made their final decisions for 1973-74, this could seriously undermine production for the coming season.

Farmers want to continue serving their overseas markets in a reliable, dependable way—not on a stop-and-go basis that causes their overseas customers to turn to other suppliers. Our customers have faith in our market system; they know that our farmers will respond to the growth in world demand if they are rewarded for their efforts. But if we adopt a policy which says forget foreign markets for this year and start to rebuild them in the future when we have surpluses, the markets may not be there.

Over the years, we have witnessed many times the ability of the American farmer to respond to this Nation's needs. There is every reason to believe that he will respond once again—despite the uncertainties created for him by nature. But it seems essential that the Government not introduce new uncertainties into the supply-demand equation at the very time that farmers are making the decisions that will determine how large plantings are to be this year.

It is for this reason that the Department of Agriculture is opposed to H.R. 5769 and in principle to export controls—or the threat of such controls—on agricultural products. Thank you for this opportunity to appear before you.

[Mr. Ioanes' prepared statement follows:]

PREPARED STATEMENT OF RAYMOND A. IOANES, ADMINISTRATOR, FOREIGN  
AGRICULTURAL SERVICE, U.S. DEPARTMENT OF AGRICULTURE

Mr. Chairman, the Department of Agriculture appreciates the opportunity to present its views on H.R. 5769, a bill to amend the Export Administration Act of 1969, export controls in general and the effects such controls would have on U.S. agriculture.

H.R. 5769 would amend the Export Administration Act of 1969 with regard to short supply export controls by removing the specific restraints on imposing controls on agricultural products. It would eliminate Section 4(e) of the current Act which states that such controls will not be applied to agricultural commodities without approval of the Secretary of Agriculture and that generally such controls will not be authorized during any period in which the supply is determined to be in excess of domestic requirements for the commodity under consideration.

Basically, the proposed bill would establish a new Section 4(e) which requires the Secretary of Commerce in consultation with other appropriate departments and agencies as well as any appropriate technical advisory committee to undertake an investigation to determine which commodities shall be subject to export controls because of the "present or prospective domestic inflationary impact or short supply of such material or commodity in the absence of any such export control."

This Department believes that the control authority under the present Export Administration Act is sufficient to protect the economy from an excessive drain of scarce materials and severe inflationary impact from abnormal foreign demand. Short supply export controls have been used sparingly in the past as we have been reluctant to impose export restrictions which would interfere with market forces.

To fully appreciate the effects export controls would have on U.S. agriculture, it is necessary to think about the situation facing farmers in this unusual year. Beginning last fall, when it became apparent that demand was strong, the U.S. Department of Agriculture took a number of actions to release Government-controlled commodities and to encourage increased production in 1973. I will not detail those actions except to say that about 1.8 billion bushels of Government-controlled grain was moved into the market, and in a series of steps our agriculture was generally freed of acreage restraints for the 1973 crop year.

As this year began, early reports of planting intentions indicated that farmers were responding extremely well to the incentive of additional acres available and the rise in prices. An expansion in planted acres of some 25 million was indicated, which would be the largest one-year acreage expansion in history.

Additional corn plantings of 7 percent, and additional soybean plantings of 14 percent were in prospect, with a total wheat acreage this year about 8 percent above 1972. Moreover, it was apparent that cattle producers were expanding breeding herds with a goal of greater beef production in the years ahead.

With the beginning of spring, it became apparent that farmers were facing difficulties with respect to both crops and livestock.

Severe weather in late winter caused losses of cattle—and sharply reduced weight gains in some feeding areas. Extended rains in the Mississippi Valley delayed planting of corn, cotton, and other crops, and brought flooding that has inundated at least 8 million acres of cropland. Millions of acres are still too wet to plant.

The next few weeks will be critical for farmers who are trying to get their crops in and to respond to national goals of increased production. Planting will require additional effort and additional investment as they try to make up for lost time. We in the Department continue to be hopeful that Midwestern and Southern farmers, with their resourcefulness and superior technology, will be able to make up most of the time they have lost. We cannot predict the weather, of course, but there are grounds for optimism provided farmers get relief from these protracted rains.

Much depends, however, on farmers' confidence. If the Government says to the farmer now that it is going to limit exports of his products, are not we really saying to him that he cannot count on having markets for the increased production his Government is asking? Even to consider export controls at this time would be to discourage the efforts of farmers to expand plantings. To weaken the farmer's determination to expand production would be to defeat the very objectives that are sought by those who favor export controls—that is, larger supplies at stable prices.

Remember that soybean farmers for some years have depended on overseas customers to take more than half of their production—and in most years the same is true of wheat. Corn and grain sorghum farmers have also built important overseas markets over the years, with the help of their own producer organizations, and they certainly feel that they are entitled to protect their positions as world suppliers.

The implications of this are just as important to the American public as a whole as they are to agriculture. Viewed in the longer term, our agriculture will be much better able to provide the Nation with abundance at reasonable prices if it is able to fully utilize its production plant. We have come a long way toward returning to farmer control the 60 million or so acres that in other years were diverted from production under a variety of Government programs.

The typical American farmer is a business man who likes to produce. Like other businessmen, he can produce much more efficiently if he is making optimum use of his production. Many of his costs are fixed, and the added acres can be planted at a lower per unit cost. Hence the plantings made possible by the existence of a large export market enable the farmer to lower his unit costs and maximize his net income; at the same time, they help make it possible for consumers to have abundant food at reasonable prices.

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Having outlined what the Department considers to be very real dangers in the threat of export controls, let me say that American consumers would have little or nothing to gain from such a limitation on trade, even in the short term. If exports of grains and soybeans were to be limited, this would have little immediate effect on meat and poultry prices or supplies, and the more likely result would be to limit plantings of these crops in the United States. And if export controls were to be placed on meat this would be like playing marbles in a game where other countries have most of the marbles.

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Over the years, the two-way trade in meat has greatly benefitted U.S. consumers, since we import so much more meat than we export. For example, our



imports of beef are over 20 times our exports. In this calendar year we estimate that we will import over 1.4 billion pounds of chilled and frozen beef, and much of this is coming from countries that recognize the importance of maintaining exports to this country in order to preserve the market for the future. If we should now limit our exports of beef to other countries, would it not be a signal to these countries that they could reduce shipments to the United States in order to take advantage of high prices at home or nearer to home? Some of our major suppliers of meat are under pressure to limit their beef exports to the U.S. Do we want to furnish them the example that can be used against them politically to force them to take the final step?

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But American farmers can respond adequately to demand growth only if they are satisfied that their markets are not going to be artificially restricted by their own Government. Even with the rise in farm prices this past year, farmers are still at an income disadvantage relative to city families. Their capital and operating costs are high. Their risks are great. Their prices are subject to fluctuation.

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Over the years, we have witnessed many times the ability of the American farmer to respond to this Nation's needs. There is every reason to believe that he will respond once again—despite the uncertainties created for him by nature.

But it seems essential that the Government not introduce new uncertainties into the supply-demand equation at the very time that farmers are making the decisions that will determine how large plantings are to be this year.

It is for this reason that the Department of Agriculture is opposed to H.R. 5769 and in principle to export controls—or the threat of such controls—on agricultural products. Thank you for the opportunity to appear before you.

Mr. ASHLEY. Thank you for your statement. We will try to adhere to the 5-minute rule so that all Members will have an opportunity for questioning.

Mr. Cook, on page 2 of your testimony you speak of the prospective challenge to the imposition of export controls, as a violation of the GATT agreement. Later in your testimony you indicate that Argentina and Brasil have embargoed the export of hides. I am wondering if their actions, in your view, are a violation of GATT?

Mr. Cook. Mr. Chairman, I am certainly not an expert on why they took such action, nor whether or not they considered such actions to be consistent with their obligations under GATT. I will say that they certainly could have put controls on hides for reasons related to short supply conditions in their country vis-a-vis their industry without being in violation of GATT, article 20. But I do not know the precise reason.

Mr. ASHLEY. Well, the same questions really could be asked with respect to Italy and Japan. Testimony indicates that they will accept

our hides, but not our leather. One wonders whether this might be a violation too. We had public witnesses who also have indicated that the Japanese will take our ferrous scrap, but not our steel. So we are faced with that, too.

I am curious in view of your testimony on page 2, you do seem to identify at least as a prospective violation of GATT, the imposition of export controls, when obviously other signatory members of the GATT agreement in many parts of the world are taking very much the same steps, for very much the same reasons, apparently.

On pages 4 and 5 of your statement, you indicate that the Department is unable to predict demand for lumber and plywood, on the one hand, but on pages 10 to 14 you indicate that there apparently is no comparable difficulty in making a reasonably accurate estimate of the trends in the steel and scrap markets. The two are just very different? Why is it that you are able to make the assessment in one situation and not in the other?

Mr. COOK. Mr. Chairman, it is difficult in all of the situations to develop what we consider to be adequate forecast indexes of domestic demand. In the lumber case, we have gone to some lengths to try to ascertain what would be appropriate forecast indexes. We have had conversations with the American Forest Products Association and other private associations. We talked to a number of forest economists who specialize in this area. The simple fact of the matter is, to this time no one has been able to come up with very good information or very good lead indexes other than possibly housing starts, which is a very imprecise measure, that would give us a good handle on what domestic demand is likely to be.

In the steel and ferrous scrap area, we have estimates of what domestic demand is likely to be based on the estimates, primarily, that we do within the Department of Commerce, and we supplement these with the estimates made both by the scrap iron and steel industry, and also the American Iron & Steel Institute. Those estimates, according to the people who make them themselves, including people within the Department, are tenuous at best. While we come reasonably close, perhaps with a 10 or 15 percent margin over a year's period of time, they're certainly still not as precise as we would like.

We have some better handles on export demand in the ferrous scrap area because other countries do do a reasonably good job, at least in some cases, of estimating what their demand is going to be, although the provision does vary depending on the country you are dealing with.

In short, Mr. Chairman, I would say, as I said in my summary, we are with varying degrees of success attempting to do what you propose in H.R. 5769, we are applying a fair amount of manpower to that, and we are inquiring to as many people as possible on an ongoing basis to try to improve our ability to make such forecasts.

Mr. ASHLEY. Well, why would you be against the provisions contained in H.R. 5769?

Mr. COOK. If the provision is to mandate—

Mr. ASHLEY. But we can read the provision, Mr. Cook. It says that the "Secretary shall develop forecast indexes of the domestic demand for such materials and commodities to help assure their availability on a priority basis to domestic users, at stable prices." That, of course,

is the general purpose of the short supply part of the Export Administration Act.

Mr. Cook. Mr. Chairman, I would only say that we are attempting to develop those indexes now. We are doing as much as we think is reasonably possible to accomplish that. And I am not certain that legislation mandating the Secretary to accomplish such a task would further the efforts.

Mr. ASHLEY. Well, it might assure the Congress that these efforts are going to be a permanent exercise, wouldn't you suppose?

Mr. Cook. If my assurances are not sufficient, yes, I would assume that.

Mr. ASHLEY. Well, in all truth, the situation with respect to scrap and hides and logs and agricultural products really hasn't been such that this subcommittee—I would suppose I can say that—can have just total confidence in the effectiveness of forecast indexes. What I am saying is that the foreign demand certainly for these commodities and the domestic availability are known to us. We can graph what has happened over the past year. Of course, there are those that say that the excessive, the very pronounced increase in foreign demand and the fact that our supply capability has not matched that increase in demand, has nothing whatsoever to do with an increase in domestic prices, but there are some of us that don't really think that there is this lack of casual relationship. But what I am saying is, if it is possible after the fact to see what has happened, then aren't we sophisticated enough and don't we have the information network, the basic data gathering capability, to make assessments for the future that can alleviate to some extent the types of binds that we find ourselves in?

Mr. Cook. Mr. Chairman, most of the work that I have seen done in this area, not just for the commodities you mentioned, but for other commodities that from time to time, it is suggested by some, are in short supply, most of the analyses I have seen are based in the first instance upon an examination of historical trends and an attempt through regression analysis et cetera, to try to relate changes in domestic prices with changes in exports and with changes in various indexes of demand, as in the lumber area where the analysis attempts to relate prices in lumber to housing starts.

Mr. ASHLEY. That is a good example, when we set as a goal or at least accept from HUD and from other Government agencies the fact that there is going to be something in the nature of 2.4 million new housing starts, that smacks of a good year, doesn't it? I mean, that is kind of historic, as a matter of fact. We don't have many years like that.

So we know what there is going to be an unusual demand for lumber products associated with homebuilding. Now, we kind of have that as a given as distinct from other years when, because of the business cycle, high interest rates, and so forth, housing starts were considerably down.

But one wonders that data of this kind are not available. One wonders what earthly difference it makes. In other words, we find that there doesn't seem to be any great concern with the language of the Export Administration Act.

I wonder, you know, under what circumstances the Export Administration Act might be applied.

Mr. Ioanes, I think, has kind of cast this as either, you do or you don't type situation; either you control exports totally or you don't control them at all. I don't believe that that is the purpose of the legislation. I think you can orchestrate your export restraints to fit the situation.

I don't think that it is necessary to drive off the Japanese into other markets for their logs or other countries for their hides at all. I do think that it is possible to use the Export Administration Act in the restraint of exports under certain situations as the law provides and, as a matter of fact, mandates. What strikes me as strange is that what we really find are any number of reasons for not doing so. I think one of you gentlemen said that you kind of feel that this is all right, but that the national security and balance of trade come first. Well, I just don't read the act that way.

The way I read the act is that there are three reasons for imposing some degree of export restraint under given situations. One is respect to national security. Another is with respect to foreign policy. The third is with respect to short supply domestically and abnormal foreign demand resulting in inflationary pressures. Now, I don't think—well, I am really quite surprised to hear somebody say that we are going to put balance of trade considerations ahead of the third category in the Export Administration Act, namely, the short supply and excessive foreign demand and inflationary pressures.

As I said, I am just very surprised to feel that you can construe the law that way.

Mr. IOANES. Mr. Chairman, if I may? Perhaps Agriculture in this respect is a little different. Let me run off some of the things I think we have heard mentioned here today, and see where we come out. Let's take beef, for example. I think all of you are familiar with the cycle of increased beef production. We have to increase the number of cows in the United States; that we are doing. That is happening. We have had a steady expansion now for 4 years. We will have more beef production this year. If you look back at the history when beef prices in the United States were relatively low, what happened was our cattle population, our ability to produce more, was staying flat. With some upturn in prices, beginning as I recall in about 1969, cattle producers responded to the incentive and in part the fact is you are seeing today the holdback in females from slaughter in order to build supplies for the future. They are coming. The increase in beef this year will be modest. It will be about 2 percent more than last year in spite of a very bad season up to the present time.

Let's take the foreign trade part of the beef picture. I think all of the factors we talked about today were weighed last year when controls, restraints, voluntary restraints by the way and not import restraints, were lifted from beef. That had a salutary effect. That said to the world, we want all of the beef you can send us. Imports for last year were up significantly over the year before and this year our best estimate is they will be up again about 11 percent over last year.

But it is a fact that there are a pool of nations looking for more beef. Prosperity, as somebody—Mr. Chairman, maybe you—is a factor in this picture. So some of the other countries are able at the moment in spite of what are very attractive prices here, to outbid us for available supplies.

There is a history of exporting countries where they value this market. I think they are going to stay with us as long as they can and my proposition today here is that in this area where our exports are so tiny, it would not really be logical for us to solve our beef problems by tending to discourage imports. We want to go in the opposite direction.

Mr. ASHLEY. One final question. The Export Administration Act reads as follows. Section 3, paragraph 2, "It is the policy of the United States to use export controls (a) to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand."

Now, can you cite me any example of where this policy has been implemented by the Department of Commerce or by the Department of Agriculture, making use of the authority contained in the Export Administration Act?

Mr. COOK. Mr. Chairman, I can cite two examples: One where we put on at least for a limited period of time export controls during the nickel strike. I have with me Mr. Wilson Sweeney, who is the Assistant Director of the Office of Export Controls, Department of Commerce.

Mr. SWEENEY. That was 1971.

Mr. COOK. That was for a limited period of time, where it was clear that if this nickel strike continued, that domestic users of nickel would not have access to supplies.

Mr. ASHLEY. Well, that is fine. So we have to go back to 1971. I take it from that that what you are saying is, there has been no application of this authority during the past year when certainly the price structure has registered significant upward changes and where shortages have become pronounced, where inflationary pressures, foreign demand pressures, where all of these combined were present as indicated and set forth in the act.

Mr. COOK. Well, we are applying the act, not to the extent you indicated in terms of putting on quotas, but to the extent of using the authority under the act. With regard to the ferrous scrap situation, we are using the authority in the act, that is, the authority that the Secretary of Commerce has, to request information from scrap exporters to ascertain what the future purchases and shipments are likely to be.

Mr. ASHLEY. Mr. Blackburn?

Mr. BLACKBURN. Thank you, Mr. Chairman.

Gentlemen, I want to thank you both for your testimony. I find it extremely helpful. I think you have to recognize that there are some differences of philosophy in the Congress itself. There are some Members of Congress who feel that by the exercise of law alone we can insure abundance and fruitful living for all of our citizens. I personally have reluctance thinking even with the majesty of the law that we can do these things. I think we do need private incentives. I think we have to face some difficult questions about our exports. Either we are going to withdraw from the world, which is totally unrealistic because we have to have things that the rest of the world is going to sell, or we have to stay competitive in world markets. And if there are worldwide shortages developing on some basic needs, and there are worldwide shortages developing in proteins, for example, that these shortages are going to be reflected in higher world prices.

Higher world prices means higher domestic prices. More inflation at home means devaluation of the dollar and devaluation of the dollar means things that we want to buy from abroad cost us more, and makes our products more attractive to world buyers, so I think we have some serious problems.

I don't think by the heavy hand of law we are going to change any of the fundamental concepts of the law of supply and demand. We are still doing to have to live with that and deal with it.

Mr. Cook, I see on page 4 you refer to the Federal Advisory Committee Act, which would permit the Secretary to establish a committee to advise him on the need for export controls. Now, as I read your testimony, the Secretary does quite often talk to industry groups when he feels that some need for action on his part may be developing. Is that true?

Mr. Cook. That is correct.

Mr. BLACKBURN. You are questioning the need for a formal committee to be established as a matter of law because the Secretary can do that anyway?

Mr. Cook. That is correct.

Mr. BLACKBURN. When you talk about the exercise of the Export Control Act, when you talked about that, didn't you use it in the Hide Exports Ban?

Mr. Cook. We did have an advisory committee there, as we do in ferrous scrap.

Mr. BLACKBURN. Well, you did actually impose a ban on hides, though?

Mr. Cook. That is right.

Mr. BLACKBURN. All right. And you mentioned to Mr. Ashley that it was 1971, the last time you used it. Actually, you used it last year, didn't you?

Mr. Cook. That is correct.

Mr. BLACKBURN. So it is not true that the only time you used it was back in 1971. You only have to go back to last year. And what did Congress do when you did do this? They rapped you on the knuckles, didn't they, and they said, keep your hands off.

Mr. Cook. I didn't mean to imply that those were the only times we used the authority.

Mr. BLACKBURN. But you have used the authority and last year you were given a significant slap on the wrist by the Congress for doing so?

Mr. Cook. Correct.

Mr. BLACKBURN. As I understand it, you normally consult with the Secretary of Agriculture anyway in dealing with possible export controls on agricultural products?

Mr. Cook. That is true. We did that even before that requirement was mandated in the legislation last year.

Mr. BLACKBURN. Well, let me express one problem I face with the legislation. As I construe the legislation—and there has been some difference of opinion in construing the legislation—it focuses attention on consultations with consumers of commodities and the suppliers I don't think are given the voice in these prospective committees that they should have. What I am thinking about particularly is the users of hides, the leather people, the shoe people and what have

you, they have a dominant voice in determining whether we are going to export hides. Now, they are facing a very clear conflict of interest because it is to their interest that we not export hides. That would create a surplus domestically and therefore drive the price of hides down. Now I question the wisdom of giving the consumers, the consumer himself the final voice on whether the producer should have access to world markets.

Mr. COOK. Mr. Blackburn, I will indicate that at least in the situation of which I am aware, we have talked quite extensively with both consumers and producers of materials in question.

Mr. BLACKBURN. I question that this bill, though, doesn't give the producers the voice they ought to have in deciding whether or not they should have access to world markets.

Mr. IOANES, do you have any questions on that? Would it be a mistake to exclude the cattlemen from determining whether or not the hides ought to be exported?

Mr. IOANES. Yes, I think it is a totally integrated industry that we are talking about. I would hope that in any consultation we would continue, as we have in the past, to consult with all the affected groups to get the feel about what the effect on production would be. Really, the heart of my testimony today is, let's not short the millions of producers and let's give them the incentive to put their investment into more output, which is what we want.

Mr. BLACKBURN. If we threaten their access to world markets, this would have a deterrent effect upon their willingness to invest and to expand production?

Mr. IOANES. That is exactly right.

Mr. BLACKBURN. Let me ask one last question. Does increase in price alone ever trigger an investigation into the possible need for an export ban and, if so, what percentage in price would incite this investigation?

Mr. COOK. Well, we try when thinking about whether or not to investigate a situation, to look again at all three of these factors. So, I can't give you a definitive answer in terms of what kind of price increase would be required for us to make an investigation. I think it is fair to say that in almost every case where it has been called to our attention that exports might be leading to serious inflationary impact and abnormal foreign demand might be a factor, we conduct a preliminary investigation to determine what the facts appear to be.

Mr. BLACKBURN. Well, you are finding some increase in prices just due to the devaluation of the dollar?

Mr. COOK. That is correct.

Mr. BLACKBURN. And we can't blame that on the Department of Commerce or the farmer. We might blame the Congress if we are going to blame anyone because we have been living in an Alice-in-Wonderland world in the last few years in our spending money.

Well, I have no further questions, Mr. Chairman.

Mr. ASHLEY. Mr. Koch.

Mr. KOCH. Thank you. Mr. Ioanes, you mentioned if we were to limit the export of meat, that other countries might in turn take the cue from us and limit their exports to the United States. These countries could then in turn sell their meat at a higher price elsewhere. Now is there a single country that you know of that is selling its meat to the United States at a lower price than it could get anywhere else?

Mr. IOANES. Actually, two of the countries who supply us—and I prefer not to identify them on the record—have for years favored us as a preferential market mainly because of fluctuation in price.

Mr. KOCH. That is startling news to me, and I accept it as a fact if you say so.

Mr. IOANES. Oh, yes, this is a very valuable market.

Mr. KOCH. The second question I have is this. You indicated that if the farmers were told that a portion of their markets were to be closed, then they would not expand their production. Therefore we should not consider export controls.

But if you use that logic, doesn't it apply to an automobile manufacturer who is told that his price is limited? Don't we find that instead of seeking simply to limit his production, he will try to expand his production to sell more cars, and make a profit under the old slogan that the millions he sells may come in pennies, but they add up.

Why should it apply toward the manufacturer of finished goods, if it does, and not apply to the farmers?

Mr. IOANES. Well, I am not an expert in cars, except I buy them. I would assume your production decisions in cars are made by a relatively small number of people and perhaps just a handful. The decisions we are trying to influence in agriculture are made by millions of farmers, several million farmers. They have to decide on their own as individuals, and not through any arrangement where they control individually a large percentage of output. They have to decide what the future looks like. So I think there may be in this respect a situation here where they have a somewhat different situation in the ability to mobilize production.

What I did try to say in my testimony is that what they had to respond to is their view of the market, not just here but abroad because, unlike the car manufacturer who doesn't sell anything abroad, American agriculture will put this year the production from one acre out of four abroad. So the international market conditions are what brought those acres back into production.

We had a farmers' meeting last week in the Department, and the Secretary asked one farmer, what is the marginal cost of your additional wheat land? And he said that his fixed cost on his regular production base is \$28 an acre, but I can bring the extra acres back in for \$9 an acre.

So what we are trying to do is give him that incentive to bring that extra acreage back and then it is there for both the domestic user and the foreign user. We have to mobilize millions of producers and price is really the only incentive we have to do it.

Mr. KOCH. Is it your opinion that there is no reasonable way for the Government to control the prices of agricultural products and livestock to the ultimate consumers? Do you think this has to be a total question of supply and demand?

Mr. IOANES. It of course depends on priorities and timing as to what we want to do, but in the end, unless we are going to have a different kind of agriculture and go back to goals by farm, to go back to controls by farm, if we are going to rely on the market essentially to bring forth the increased production, I think the answer is that I don't see any other way to do it.



Mr. KOCH. Let me ask you this. Are you opposed then to all the farmer protections which the farmers might think now are inadequate, but which cost the Government millions of dollars?

Mr. IOANES. That is what we were just talking about today. The large cost we have had in agriculture has been to keep the farmer from producing. The large cost you have seen for cotton, for example, or for feed grain or for wheat, has been because of the cost of keeping those 60 million acres out of production. Now what we have done in the Department, what the Secretary has done, what the administration has done, is to say that we are going to free up those acres, and we are going to find a way to make it profitable to expand our production base. I just have to say that I think that is the way to do it.

Mr. KOCH. I understand and I appreciate that.

I have just one additional question of you. I was interested in the statement that no adequate indices exist for the purpose of forecasting supply and demand prices. You also said that in the area of ferrous scrap other countries do a good job in terms of estimating what their demand will be so that we in turn would have a better idea of how much they will buy from us. Why is it that other countries are able to do a good job in this area and we are not?

Mr. COOK. Well, not all of the other countries do.

Mr. KOCH. Some.

Mr. COOK. Yes. But not all do as good a job as us. I am not certain I could say this definitely, but I think that most of the countries that perform better have a more centrally planned economy.

Mr. KOCH. Managed economies?

Mr. COOK. That is correct.

Mr. KOCH. I understand, and I think that is a reasonable response. I have no more questions.

Mr. ASHLEY. Mr. Brown?

Mr. BROWN. Thank you, Mr. Chairman. From the testimony of Secretary Butz before our full committee on wage and price controls, it was apparent that the demand for foodstuffs and especially meat was probably tripled or quadrupled by the food stamp program. The per capita consumption of meat for instance, according to Secretary Butz' testimony, I believe, was that it increased or came up by 20 percent or something like that. I am not exactly sure.

Mr. IOANES. In a decade the consumption has roughly doubled.

Mr. BROWN. The figure 20 percent came in mind. This may have been over 3 years. I don't know.

The export market—I don't know the percentage of increase—but by relaxation of trade restrictions that market increased substantially. Now with all of these obvious factors on the demand side, there appeared to be no prospective action on the supply side. For instance, the switching of the farm program didn't occur until—well, the most significant change occurred in January I believe.

Mr. IOANES. Yes.

Mr. BROWN. Anyway, why didn't we foresee all of this? I mean, did we think that food stamps were not going to affect demand? Did we only look at food stamps from the standpoint of what we were doing to improve the nutrition and so on of the low-income person without ever looking at what he was going to do with the food stamps? That he was going to buy things with them? We see the constantly increas-

ing, as we become more affluent, consumption of meat per capita. We see the tremendous demand features of our export program for feed grains, but we don't change the thrust of agricultural policy in this country until January of this year from one of attempting to take care of surpluses to one of attempting to satisfy demand.

Mr. IOANES. Well, I think it is clear that a series of steps were taken finally culminating in the removal of all set-asides except the 10 percent in feed grains. That did come progressively. One of the factors, of course, present here is to make sure that you know what is going to happen in the year you are talking about. One of the jobs we do in my Service is to try to look a year ahead to forecast internationally what the situation will be. It is awfully hard to do that in advance of any crop indications at all. So our own forecast on the major commodities like wheat and feed grains is that we gave preliminary estimates late last year and firmed them up this year and have now published our estimates.

For example, I have a circular which I brought along today. The date on it is April, and that was an updating of one published on January 15. Now, as my colleague has said, internationally at least, for us it is difficult to look 12 months ahead. We are putting more resources, though, into it, but in part, we needed to see what the response in production was going to be around the world to better prices and whether demand was going to last. Our recommendations in this field to the Secretary and to our associates for the feed grain and for the wheat and for the soybeans was: It is time to move, because we see the international market growing.

Mr. BROWN. Well, wouldn't you agree that in view of this phenomenon that you possibly didn't move fast enough?

Mr. IOANES. I am not trained to say that, Mr. Brown.

Mr. BROWN. Another incongruity has come to my attention. I understand that the Commodity Credit Corporation has started purchasing nonfat dry milk and, at the same time, we have relaxed the import quotas on nonfat dry milk. Now that is somewhat of an incongruity to me. I could see during the shortage times that you would relax the import quotas, but I can't see doing this when you are purchasing, or when the Commodity Credit Corporation is purchasing nonfat dry milk during a flush period.

Mr. IOANES. We are a mixture, as you have said before, of different goals and there are different goals in all programs. The action to substantially increase imports of nonfat dry milk was taken on the basis of an expectation that even during the flush period, nonfat dry milk at support prices would not come to the Commodity Credit Corporation. That is, nonfat dry milk is not coming to CCC. What is coming into CCC in a very modest way are some very small purchases for the school lunch program where a certain amount of nonfat product is needed for mixture with other items—but it is a very small purchase.

In other words, there is a different statute here. It is not done under price support.

Mr. BROWN. Okay. That is a good clarification.

Mr. Cook, you have said that probably it is almost impossible to do anything in the way of establishing a formula for the handling of and control of exports. But you have established three factors here:

commodities in short supply domestically, serious inflationary pressure, and it may be attributable to abnormal foreign demand.

Now, with our present sophistication in computer technology and everything else, couldn't you establish a formula using those factors—which you agree are the factors that you consider—to develop a triggering mechanism so that when the criteria you establish have been met, you automatically have some kind of implementation of controls on exports?

Mr. Cook. You could do that, but the question is whether or not it would be appropriate to do that and whether or not you would come up with appropriate results. Those factors, well, we try to consider all of those factors, and I guess we have almost done what you have said in a manual way, by taking a look at, for instance, ferrous scrap, and trying to look at what we think domestic demand will be and what the price will be based on what has happened in the past.

You know, though, the computer is not the answer to the problem. The problem is in the methodology.

Mr. Brown. No, what I am saying is that the raw data are available to you on practically a weekly basis. If you had a formula so that you don't have to do it manually any more, you could feed it into the computer. If you were to have the conclusions almost simultaneously with the receipt of the data, you would have this kind of triggering mechanism.

I say this because with all of the talk about the problem with the scrap, you just now are telling us that an investigation is going to be conducted. Well, it seems to me that this problem has been before us for several months. I know that the chairman of the committee held hearings, and hearings were contemplated months ago, but we are just getting around to having the Cost of Living Council investigate the matter now.

It just seems to me that if you established a methodology for utilization of data, you wouldn't have to have an investigation as such and have it delayed 6 months while the prospective crisis is upon us.

Mr. Cook. The Department started some investigation of the scrap problem considerably before the Cost of Living Council announced its own investigation, and we have been investigating it for at least 6 months. So it is not a situation where no action or no activity has been underway in terms of trying to analyze what the problem is.

Mr. Brown. But you said that we could consider these factors as valid. Your statement says that the Department of Commerce now weighs three factors in assessing the need for short supply controls. It seems to me you ought to be able to come up with a formula and weight these factors and when the resultant equation is reached, there ought to be automatically triggered an export control device. In other words—

Mr. Cook. I understand what you are saying. All I can say to that is we consulted with some of the best economists and some of the best business economists that we could find, and none of them are happy with the idea of trying to come up with a formula which would auto-

matically trigger this. Even the iron and steel industry itself, for example, has taken a look at this and they have done some computer runs and tried to relate the factors, and are very unhappy with the results. They can't find a formula that is satisfactory to them.

Mr. BROWN. I am not sure that the present system is working a lot better.

One final question. From a variety of witnesses we have heard—I get the impression the supply of logs and hides is fairly elastic so that we might expect to increase supplies sufficiently in 1 or 2 years so that we could serve both domestic and foreign markets without serious mishap. Scrap iron seems to present a somewhat different picture, and one in which supply can be increased or kept level by sustained high price levels. Would you agree to this, and if so, would you also feel it appropriate to pursue a different policy towards exporting goals on scrap metal than on hides and lumber?

Mr. COOK. I think it is fair to say that the supply of scrap is more responsive to price level increases. One of the questions there is, once we reach a certain level of production of scrap, it is entirely possible that the price can go down a certain amount and that the scrap generation network, which is really what we are talking about—all of the people out in the country who bring in cars and bedsprings and everything else—may continue to operate once they establish a routine of bringing in the scrap even though the prices decline.

Now, if it declines precipitously, it is highly unlikely that they will continue to bring this scrap in. But there is a fair amount of evidence to suggest that when the price begins to decline somewhat, this kind of informal method of scrap gathering continues to operate. So I am not sure it is fair to say that scrap is elastic in terms of price, in terms of downward movement.

Mr. ASHLEY. Mrs. Sullivan.

Mrs. SULLIVAN. Thank you, Mr. Chairman. I am going to have to make my questions fast because I am due over at another committee. Before I start in on questioning Mr. Ioanes, I would like to know: Are we still sending wheat and feed grains and other farm products abroad under Public Law 430?

Mr. IOANES. Yes, we are, but in reduced quantities.

Mrs. SULLIVAN. How much reduction?

Mr. IOANES. I would guess in wheat and feed grains, the reduction from last year—and I want to correct this for the record—I don't have the exact number with me, but I would guess it is down from last year by about 25 percent.

Mrs. SULLIVAN. We asked for information about a month ago and I haven't received it yet.

Mr. IOANES. I wasn't aware of that. I will get it immediately.

Mrs. SULLIVAN. I wish you would, because I think it is terribly important so that we know what are the future plans for Public Law 480. We are paying such high prices for domestic needs here in this country. Really, to listen to you witnesses, you don't need any more laws.

[In response to the request of Mrs. Sullivan, the following information was submitted for the record by Mr. Ioanes:]

[In thousands of metric tons]

Commodity	Fiscal year—		Percent of change
	1972	1973 estimate	
Wheat/products.....	6,448.8	4,272.8	-33.7
Feed grains.....	1,505.2	1,814.4	+20.6
Rice.....	1,057.7	1,002.4	-5.3
Cotton.....	107.8	164.2	+52.3
Tobacco.....	10.6	12.3	+16.0
Vegetable oil.....	380.2	254.9	-33.0
Other <sup>1</sup> .....	346.8	311.9	+10.1
Total.....	9,857.1	7,832.9	-20.5

<sup>1</sup> Major components of "other" are nonfat dry milk and blended foods, such as corn-soya-milk and wheat-soy blend.

Mrs. SULLIVAN. I have a question for all of you regarding coordinating with other agencies. Who, or what agencies, coordinated with the Department of Agriculture on the Russian wheat deal?

Mr. IOANES. The chairman of that delegation was the Commerce Department representative.

Mrs. SULLIVAN. What about the Secretary of Transportation?

Mr. IOANES. I am just not aware that he was in those discussions, or not.

Mrs. SULLIVAN. Yes, and what about Commerce? Did Commerce do it?

Mr. IOANES. They chaired the meeting.

Mrs. SULLIVAN. Yes. When a billion or so bushels of wheat or grain are going to be sent in a short time to Russia—well, did you find out how it was to be shipped? The railroad cars, the barges, the number of ships needed—the facilities of the ports—let's get on one subject first. Nobody evidently found out whether we had enough cars to carry the grain and whether when the grain was sent down to the port to be unloaded, whether there were enough ships to take the grain to Russia. We find things like ships standing out in the ports—and I think you know the cost of a ship's being idle for one day—for 40 days waiting for their turn to be loaded with this wheat.

Mr. IOANES. Right.

Mrs. SULLIVAN. And we find the railroad cars absolutely insufficient. There are none. The loading facilities at the port were not sufficient to load the ships—so the ships must stand idly by, waiting their turn to be loaded. And all this time the taxpayers paying operating subsidies to idle ships.

Now what kind of coordination is that? You don't have to answer now—because there hasn't been the proper coordination or they would never be in this kind of a problem.

When you mentioned before, and I was going to interrupt, about the supply and demand, do you mean that the agency didn't know what a billion bushels of wheat going to Russia was going to do to our domestic needs?

Mr. IOANES. Mrs. Sullivan, you of course know it was a large quantity, but it wasn't quite a billion. The amount of the wheat sale was

about 400 million bushels. It is a large number, I would acknowledge that.

Mrs. SULLIVAN. You didn't know what it would do to domestic needs?

Mr. IOANES. Well, I think that as the purchases unfolded, what we didn't know at the time of the negotiations was the size of the total purchases because those purchases were made in increments; first one quantity and then another. As the Soviets found as they approached their fall harvest that their crop was poorer than they thought, they bought more. So it was about some time in August that we had full information about the size of the total purchase. That was not known at the time of the original negotiation in July, but we did know about it later.

Mrs. SULLIVAN. All right.

Mr. IOANES. Mrs. Sullivan, could I go on for a moment?

Mrs. SULLIVAN. Yes.

Mr. IOANES. There was a requirement in this agreement that a portion of the grain be carried on American bottoms, and there was a need for extended discussions to implement this agreement between the people in our Government responsible for this matter and the Soviets. That was not settled until some time in November, so there was no movement on American bottoms for a considerable period.

Mrs. SULLIVAN. I know. The shipping lines were at fault also.

Mr. IOANES. We would hope that doesn't happen again.

Mrs. SULLIVAN. I blame them, too.

Mr. IOANES. That did help cause a congestion.

Mrs. SULLIVAN. There was a congestion, and there still is a congestion, because there aren't enough cars to transport that grain to the ports, and the ports do not have the capacity to handle that much cargo, so there could have been and there should have been other ports to use.

Mr. IOANES. Mrs. Sullivan, you are mostly right. It is impossible for us to forecast the kind of weather we had this year, which forced emergency movement of fuel and—

Mrs. SULLIVAN. All right. Let's get on then, because I must leave. The other thing was, that I understand Australia and some of the other countries begged the United States not to sell the wheat at world price because—as they said—you have it and they want it, and you set your own world price. You mentioned about the supply and demand—it is supposed to control the cost of the product—yet, we subsidized this wheat sale, and there was no need to do so. And the U.S. users of wheat were all forced to pay higher prices for domestic use.

Mr. IOANES. Expand production, yes.

Mrs. SULLIVAN. All right. But look at what this price has done. We sold—and I think we are very foolish bargainers and poor bargainers with Russia—we sold wheat at a lower price and subsidized it—we sold it to a country that wanted it and needed it. I thought supply and demand made the price and raised it up or down.

Mr. IOANES. It does.

Mrs. SULLIVAN. Well, then we are a very, very poor negotiator.

Mr. IOANES. That is why the wheat price is where it is, and perhaps that is why there is no subsidy on wheat any more.

Mrs. SULLIVAN. Well, but you—not you, but someone sure gave the Russians a darned good deal in paying them the subsidy to buy what they wanted and we had.

Mr. IOANES. All I can say about that is, it is easier now to see the progressive steps and how they might have been handled if they had all been present originally.

Mrs. SULLIVAN. Well, it isn't so easy for the people to have to pay the increase in price in any wheat content of food that they have had to pay. Then, let's get back to what has happened on the cattle. I don't know if you heard the cattleman who came up and said, you can't roll back prices, you can't do this. Let the people pay, they want it and they are demanding it, so they are going to have to pay the price if they want it. They said they have to pay twice the cost for feed grain, twice the cost for hay, and alfalfa, and everything else they feed them. Soybeans have soared from \$2 to \$4 to \$6 and \$7 per bushel. They said they use soybean tablets in feeding these animals or something made of soybean.

Mr. IOANES. Soybean meal.

Mrs. SULLIVAN. Well, whatever it is. I just can't understand the Departments having the responsibility for negotiating such a sale not realizing what a deal of this kind would do to the domestic market. We are all anxious to sell abroad, but were we so anxious to sell abroad at the price of what this did to the needs of the American consumer who had to pay such an increase in the products of wheat?

Mr. IOANES. Absolutely. That is exactly right.

Mrs. SULLIVAN. What?

Mr. IOANES. That we should be selling abroad at the same price as the product is available to the domestic consumer. My speech was intended to say exactly that.

Mrs. SULLIVAN. Yes, but if there is a scarcity, should we still sell to them what they want and have us have a scarcity and then raise the price to us as domestic users?

Mr. IOANES. I don't know. I would say this much, that in our work, since we have such a large part of our production base geared to the foreign consumer, it is awfully hard to distinguish between the two. It is awfully hard to distinguish between the two areas' ability to bid for those supplies. In the end, when we get those additional 25 million acres, it will have a moderating effect to some extent on prices to both groups.

Mrs. SULLIVAN. I will tell you this, I think the American consumer for many years has paid the farmer his subsidy in food products in order to help him make a living, and they were willing to do so. I'm from an urban area, and I have explained to my people if we want farmers to buy what we manufacture, they have to have a living wage on the food they produce. But now when you hear these cattlemen cry that beef is not coming down, pork is still coming up, that the consumers are going to have to pay what it costs—but they are having to pay these costs because of the fact that we have not utilized the authority that you people have to curtail certain sales when our domestic supplies are low.

Mr. IOANES. May I respond?

Mrs. SULLIVAN. Yes, but in just a minute.

You talked about the steel, and you have been talking about it for 5 months. Well, we have had steelmen come from my area, small

steelmen, who have gone to the White House and gone to the Department of Commerce and the people just sit there and listen and don't even answer or give them any encouragement. The steelmen beg them not to sell all of this scrap iron at this moment, because they is a scarcity and they are unable to buy it domestically. They are losing millions of dollars in their businesses because if they want to forge steel, they have to buy the raw materials and not use scrap that can be used by these small steel companies.

I wish you would answer my many statements for the record, because I would like to have some of your reasons and arguments. Please do so when you read the transcript.

Mr. IOANES. I will answer it from what I know.

Mrs. SULLIVAN. From what you know, yes, but on these other matters, I just don't think you are all carrying out the law properly in the things that are your responsibility. I am chairman of the Merchant Marine Committee and that is where I am due now, and I know we do not have proper coordination with other agencies. I know what our problem is in the transportation of items by water. But if we don't do what we are supposed to do as a Government of agencies, working for the betterment of our people, then we'd better find some other way to run this Government because there is no proper coordination in seeing that everyone who has this information can bring it together for the betterment of our own people and not abroad.

Excuse me, I must leave.

Mr. COOK. Mrs. Sullivan, I would like to respond about the ferrous scrap.

Mrs. SULLIVAN. If you will do that when you receive your copy of the transcript, I will appreciate it because our steelmen at home are waiting for an answer and they haven't gotten it.

Excuse me, Mr. Chairman.

Mr. ASHLEY. Mr. Frenzel?

Mr. FRENZEL. Thank you, Mr. Chairman. Gentlemen, I thank you for your testimony. I note both of you are opposed to the bill and I guess mostly because you seem to indicate that whatever you are doing now, you are doing a good job. Perhaps you would each tell me what is so different about the bill from the present law? Do you find that new authorities are being thrust upon you that suddenly would force you to restrict exports? I don't see the spooks in the bill that both of you see. Can you give me your views on that?

Mr. IOANES, maybe you would speak first. You told us about the need to export all of these agricultural products. I think we would all stand up and cheer and agree with you, but we don't see, or at least I don't see, that we are inhibiting you in this particular piece of legislation.

Mr. IOANES. I think there is an intent in the bill and I think that the intent in this bill is to strike that portion that says, you should not put export controls on agricultural commodities if the supply available exceeds domestic requirements. That is the provision in the current law. That came into the law, as I recall, last year. We did not push for that change in law, but it is there. I take it the intent here would be to take it out of the law, and I take it the reason for it is to change policy. I tried to say in my statement that the signal of a threat of export controls at this particular time when we are trying to enlarge



our production base through the incentives of the present market prices would, in our judgment, be a serious mistake. So there is intent, it seems to us, in the language.

Mr. FRENZEL. Let me come back to you. Do you see anything here that would force you to implement any export controls?

Mr. IOANES. It seems to me the thrust of this whole bill is to make far greater use of export controls in agriculture as well as industry. I don't know. I assume that is what it is.

Mr. FRENZEL. I think you are reading a lot into a very small number of words. Speaking as one member of the committee, I would like export controls used occasionally, but I don't see here any overwhelming mandate for you guys to start restricting shipments. That is why I was kind of surprised at your testimony. I wonder if Mr. Cook feels the same way?

Mr. COOK. Mr. Frenzel, I think as I said in the beginning of my summary of my statement that we are basically in agreement with what we see as the objectives of this bill, but, on the other hand, we think the Secretary of Commerce has basically the authority suggested here under the terms of the Export Act as presently written.

Mr. FRENZEL. Well, I think I would agree with you. Do you think this bill would impose any new authorities?

Mr. COOK. Well, my question would be: Is it necessary if, in fact, we are at the present time doing the kinds of things which it suggests?

Mr. FRENZEL. With respect to the technical advisory committee, I think that some of us in the Congress feel there would be a great deal more visibility. You tell us now that you can consult with all of these wonderful people and I'm sure you do, but we don't see that. We don't know who the neat people are that you are consulting with. I think this would give the operation some visibility, and we would perhaps see the results of their reports. It would help us in our oversight program. I don't think very many of us would disagree with the thrust of the testimony of either one of you. I don't think there is a person on this committee who wants to operate in violation of Article 20 of GATT, but I don't see a word in this bill that would force you to do that.

I think you are shaking something over this bill that doesn't have to be shaken. That is why I have difficulty understanding your objections. I personally agree with most of your rationale. I don't, however, see anything so fierce in here. The worst thing we have done to you is ask you to provide some visibility for technical advisory men.

I have another question of my colleague, Mr. Blackburn. Something in your questioning gave me the impression that there was language in this bill that would prevent producers from being on the advisory committee. I don't see that, and I wonder if there is an amendment or something I don't know about.

Mr. BLACKBURN. No, just that there is no provision in the bill requiring producers to be consulted. It just says, industry which processes materials or commodities upon written request by representatives of a substantial segment of any industry which processes materials or commodities, and I think a processor is necessarily a consumer. It doesn't say, producers though. Do you understand the distinction between the man who is turning the hide into leather and the man who is creating the hides, that is, either the cattle grower or the meat processor?

You see, the slaughterhouse is sitting there with a carload of hides and they want to get rid of them and they don't care where they get rid of them. They want to sell where they get the most money. If we tell the man who is processing and who is going to buy that hide that you can stop the sale of that hide that is going abroad and if we don't bring in the consideration of the man who is producing that hide, well, do you see what I am driving at?

Mr. FRENZEL. Well, I do.

Mr. BLACKBURN. In my opinion, as I construe the bill, we give a predominant influence to the consumer of the commodity and not to the producer of the commodity. I think both of them deserve equal consideration.

Mr. FRENZEL. With deference to your point of view, which is certainly a good one, I think you are seeing the same spooks under the table that these gentlemen are. The bill says that there should be representatives of industry and Government. I can't imagine these gentlemen or their associates not picking a hide producer to serve on one of these committees if they are going to look at hides. We could, I suppose, specify exactly who these committees should be, but I think that would simply inhibit the ability of the Department to pick the kinds of people they want to.

I guess I don't see this bill as all that terrible as everybody seems to think it is. It looks to me like a pretty harmless piece of work and one that functions and directs our attention on the fact that I think is best exemplified by the softwood log problem which is that, occasionally, our people get a little concerned when the price of lumber doubles and triples and quadruples. Nobody here would, I think, intimate that exports caused all of that, but I think occasionally we would like at least to take a look at it and see if there may be an appropriate time to put on some controls.

I think the chairman correctly listed three purposes for the legislation and I would add a fourth, and that is, if the softwood log amendment is applied, that we would give a little incentive to the Department concerned to be a little more aggressive in the management of our timberlands, and perhaps change their policies with regard to the total cut, and so on.

So I see some positives here, and I don't disagree with what any of you have said, except I think you are overstating the dangers.

Mr. BROWN. Would the gentlemen yield?

Mr. FRENZEL. Sure.

Mr. BROWN. The gentleman's comments about giving visibility to the activities of the Department of Commerce, prompt me to point out that his concern has been validly shown in the past. In 1969, we had trouble with lumber prices. We got into a whole hassle about export controls at that time, and about the export laws. After we had gone through a series of hearings here and really got a lot of publicity on this problem, all of a sudden all of the factors that were causing the prices to go up tended to mitigate. The supply problems, the price problems, and so on came down.

Now, then, we have been at these hearings for a couple of months already, and you are telling us now that these factors are going to kind of fall into line and again prices will be coming down. It is terribly coincidental that, as you focus attention and publicity on a problem, that all of those factors that caused the departure from the stability of

prices, that all of those factors seem to get in line again. Now, facetiously, I am sure that the publicity given to the lumber situation in 1969, the attention given to the lumber situation this year, I am sure that the publicity had nothing to do with price action; it was just coincidental. If we had these advisory committees raising a little noise in your department, maybe such coincidences would occur more frequently.

Mr. FRENZEL. I thank the gentleman for his contribution, and I yield the remaining balance of my time.

Mr. ASHLEY. Mr. Cook, going back to your testimony; Mr. Frenzel touched on this. It is entirely true that we do suggest in the legislative language that the Secretary shall develop forecast indexes of domestic demand for materials and commodities in short supply, to help assure their availability on a priority basis to domestic users, at stable prices.

Let me just say that we do find that when there are certain requirements written into the law, they tend to be a little bit less of an in-house operation, and they do tend to become a little more visible. There is a natural expectation that such provisions of the law are going to be complied with also.

There has been no demonstrable evidence, as I indicated earlier, that there has been a prospectus, a looking forward, to try to come to grips with an emerging and a developing short supply situation, and, therefore, we think that this may be helpful.

You say that this is already being done, and all I can say is that the evidence has not been all that clear to us. We think therefore there is justification for the provisions.

As far as Mr. Blackburn's comments on industry representation, I think it should be noted that what the provision in the bill calls for, that that provision is predicated on a present or prospective domestic inflationary situation where there is short supply, and it is at this juncture and under those conditions that the provision is triggered which permits the appointment of a technical advisory committee to evaluate technical matters, licensing procedure, worldwide availability, and actual use of domestic production facilities and technology. It would certainly seem to me that the presence, the availability, the input from the processors in a given industry would be of enormous value to you under these circumstances if you take seriously the fact that all the mandate of the basic legislation says is that it is the policy of the United States to use export controls to the extent necessary to protect the domestic economy from the excessive drain of scarce materials and to reduce the serious inflationary impact of abnormal foreign demand.

Now, if you mean to be faithful to that national policy, then it would seem to me the appointment of a committee, as provided for in the legislation, is supplemented by the phrase that "nothing in this subsection shall prevent the Secretary from consulting at any time with any person representing industry or the general public regardless of whether such person is a member of the technical advisory committee or not."

Mr. BROWN. Would the gentleman yield?

Mr. ASHLEY. Yes.

Mr. BROWN. I think Mr. Blackburn has misinterpreted the language because there is nothing to stop a producer from serving on one of the technical advisory committees.

Mr. ASHLEY. That is entirely true, and I am glad you pointed that out. So that is the justification, which I don't feel constrained to back away from, based on the testimony this morning that is behind the legislation that is before us. But going to your testimony once again, you stated that the Department of Commerce now weighs three factors in assessing the need for short supply controls, and those are: Is the commodity in short supply domestically, and under serious inflationary pressure, and are these conditions attributable to abnormal foreign demand.

How would you answer that with respect to ferrous scrap?

Mr. COOK. To take the ferrous scrap situation—

Mr. ASHLEY. Let's go one, two, three. Is there a short supply domestically?

Mr. COOK. It depends upon your definition. If we define short supply as in the case of the nickel strike in which there were people who were not receiving any supplies whatsoever, the answer is clearly no, at least as far as we can tell, because we have identified no producers—

Mr. ASHLEY. Well, I am glad Mrs. Sullivan didn't hear you say that because she would really leap at you on that. She has just talked to too many of her people in St. Louis, just as I have in Toledo and the Midwest, and it is awfully hard to make an assertion like you have to those people without their hair curling on end.

Mr. COOK. Mr. Ashley, I have received representatives from steel companies, particularly small ones, over the last 5 months, and we have yet to find a case where a steel company, a small steel company, using ferrous scrap, has been unable to operate because of a lack of ferrous scrap.

Mr. ASHLEY. Now, that says nothing as to price, of course. I suppose at a given price if you go high enough it is going to be available. That is fine. But that really doesn't quite answer that, does it?

Mr. COOK. It does if you take that definition.

Mr. ASHLEY. Well, but what do we mean by short supply? If they are paying an outrageous price in order to have scrap that is needed to produce the end metal product, are they going to be competitive?

Mr. COOK. No, clearly not.

Mr. ASHLEY. Well, I don't quite see how you can say that the commodity isn't in short supply. You can rig your definition of short supply and you can say price irrespective so that obviously it will never be in short supply.

Anyway, what about the second question? Is ferrous metal under inflationary pressure? What has the price picture over the last 6 months or a year been with respect to ferrous metals?

Mr. COOK. There has been considerable increase in the price of ferrous scrap over the last 6 months.

Mr. ASHLEY. Does that indicate inflationary pressure?

Mr. COOK. The question is, do you relate inflationary pressure to the short-range trends or the long-range trends? The long-range trend has been generally upward over the past 15 years. If you look at the price increases that occurred over the last 6 months, while they are

above the longer term increases they are still certainly not excessively abnormal.

Mr. ASHLEY. Of course, as I said, depending on your definitions, if you want to be a strict constructionist, then we can say there has been no short supply and there has been no inflationary pressure, and therefore the third of these conditions—you don't even have to answer that because the conditions don't exist as far as you are concerned.

OK. Is the same thing true with logs?

Mr. COOK. Yes, very much so, I think.

Mr. ASHLEY. Well, then we really don't have any kind of situation that calls for intensive scrutiny in terms of carrying out the Export Administration Act?

Mr. COOK. No. That is incorrect.

Mr. ASHLEY. Oh, really?

Mr. COOK. I said at the present time we have no situation in which we feel that the exports controls under the act ought to be applied, which is the reason we have not applied them. That is not to say there are not situations in which we should have intensive scrutiny, which is what we are doing in the case of logs.

Mr. ASHLEY. Let me ask if our balance of trade, our balance-of-payments situation, was very different and beneficially different, would the definitions that you apply tend to be a little different with respect to short supply inflationary pressure and abnormal foreign demand, or does the definition become more strict as our balance of payments gets more out of kilter?

Mr. COOK. That is a question I really can't answer.

Mr. ASHLEY. Wouldn't you say that—well, it is a good question to put some thought to. When you say that the bill implicitly seems to assume that export controls are a price control device in the absence of proven shortages, where in the bill do we find that?

Mr. COOK. We are alluding to the section at the end—no, excuse me, the sentence at the end of section E on page 2 which says that the Secretary shall develop forecast indices for domestic demand, et cetera, to help assure their availability on a priority basis to domestic users at stable prices.

Mr. ASHLEY. It said at stable prices, and that is what caused you to think that this bill is really a price control device? The funny thing, I thought that part of our whole fundamental national economic policy was directed at stable prices. I am going back to the Full Employment Act of 1946 and since that time. I thought that was what the Federal Reserve was concerned about. I thought, as I said, that was what our whole economic policy was about, reasonable growth with stable prices.

Mr. COOK. That is correct.

Mr. ASHLEY. As I pointed out, our reservation was with regard to using export controls to insure stable prices, because we felt that that would be in violation of article 20 of GATT, but you are correct, we have a policy of trying to assure stable prices.

Mr. ASHLEY. I was interested that at the bottom of page 2 of your testimony you acknowledge that the present section 4(e) provides special treatment for agricultural commodities with respect to the application of the Export Administration Act.

Do you think that is justified?

Mr. COOK. Let me say this, as I said again in my summary, we believe that whenever we are investigating whether or not to put short supply controls on, it is only reasonable to consult with other Departments that have an interest.

Mr. ASHLEY. I'm not talking about consultation. I am talking about the different treatment, the special treatment as you put it, for agricultural commodities with regard to the possible curtailment of exports as provided for under the Export Administration Act.

Mr. COOK. We have not had difficulty with that provision.

Mr. ASHLEY. Do you think that a special treatment for agricultural products is justified?

Mr. COOK. I think considering their importance that there is no reason why we shouldn't receive the concurrence of the Department of Agriculture when we make a determination.

Mr. ASHLEY. I am not talking about the concurrence with the Department of Agriculture. I am talking about the provision that says that the Secretary "shall not approve such an export control if he determines that the supply of the commodity exceeds domestic requirements."

Mr. COOK. As I said, that provision has given us no trouble nor do we expect it to.

Mr. ASHLEY. Well, can you foresee a situation in which that language might not produce rather bizarre and uncommon results as far as the Export Administration Act is concerned? I mean, what this really says is under no circumstances shall agricultural commodities be subject to export controls; isn't that right?

Mr. IOANES. As I understand it, for reasons of short supply.

Mr. ASHLEY. Right.

Mr. IOANES. But not on national security grounds, and not on foreign policy grounds. But for the reason of short supply, one of the three criteria.

Mr. ASHLEY. Yes. In effect it says short supply is out as a means of applying export controls. You are quite right. So that—

Mr. IOANES. I am sorry, could I confer with my colleague about that? He says I may have not said it quite right.

[Pause.]

Mr. IOANES. We have concurred.

Mr. ASHLEY. In view of your testimony on the soundness of the basic policy of your Department, Mr. Ioanes, to increase production as a means of accommodating both our domestic and foreign requirements and obligations, how in the world do you justify the lack of what has been done by the Department of Agriculture to increase timber production?

Mr. IOANES. Well, I am not an expert on timber. My understanding is that Dr. Dunlop had previously testified of the plans to expand production on national forests this year.

Mr. ASHLEY. We haven't seen any indication of that other than from Dr. Dunlop, who is not a member of the administration, really.

Mr. IOANES. Not a member? May I call on my colleague? I was going to read to you what Dr. Dunlop has said, but if you already know that, may I call on my colleague to see what he can add to that?

Mr. ASHLEY. I know Dr. Dunlop acknowledges that the track record of the Department has been a failure and he acknowledges this

with respect to increasing production of timber, from the public lands over which the Department has jurisdiction. I would be delighted to hear your colleague. I just wanted to clear up what the full testimony revealed.

Mr. HAIR. Well, all I can say, sir, at this time there is a planning group looking at the problems involved in increasing timber production and they expect to come out with their report in the fairly near future.

Mr. ASHLEY. That is a very unsatisfactory reply from the standpoint, if I may say, we have already gone through this. We did go through it in 1969. The testimony then reads almost verbatim to what the testimony is that we have had in the past 6 weeks or 2 months, namely, that the production from the public lands is about 25 percent of the per acre yield from the privately held timberlands, Weyerhaeuser and others, and it is about 50 percent of the production per acre of the public lands administered by the State of Washington. As a matter of actual fact, there has been nothing significant whatever that has been accomplished since 1969 when we went into exactly the same area of concern. Nothing has been done. Study groups are really just getting to be a little more than is indicated.

You know perfectly well, I assume, that the Department is under a severe budgetary curtailment as far as the money available for this particular purpose, isn't that so?

Mr. HAIR. That is correct, sir.

Mr. ASHLEY. So what is being studied is how you increase production while you cut off \$105 million for your forestry operation.

Mr. HAIR. Of course, if we do increase production we will have to have additional funding and manpower to do it, and this is one of the problems involved.

Mr. ASHLEY. I take it that the export of logs to Japan is a matter of some concern, although not sufficient for there to be any application of the Export Administration Act, but Mr. Cook's testimony indicates that the U.S. Embassy in Tokyo and Washington officials have discussed with officials of the Japanese government and importers the price pressures in the United States on softwood logs and lumber, and the relationship between these price pressures and U.S. softwood logs to Japan. So apparently there is some sense that there is a causal relation between those log exports to Japan and the available supply domestically.

Mr. COOK. If I could respond to that, Mr. Chairman, in two very short ways? First of all, it is very clear that over the last few years the preponderant increase in price has resulted from an increase in housing starts. About 80 percent of increased consumption in the United States, if you include exports, has gone for housing starts, and there has only been about a 6 percent increase in the amount of logs being exported to other countries and particularly to Japan. We have been in contact with the Japanese because we have been concerned that given their interest in expanding their housing production, that they may be forecasting sizable increases in the amount of logs they would like to import from the United States.

Mr. ASHLEY. Well, that was agreed upon last year between Premier Tanaka and the President, wasn't it? Wasn't it agreed at that meeting

there that there would be available to the Japanese a substantial increase in United States logs availability for the Japanese?

Mr. COOK. But at that time we were not completely aware of the kind of price increases we were going to have in the domestic price of lumber, and as a result of those domestic price increases, we have been in touch with the Japanese. They have indicated that although their housing starts are going up, they will not be buying substantial additional quantities of logs from us.

Mr. ASHLEY. You mean we have that kind of forward-looking assessment that would give us some indication that there might be a domestic scarcity as a result of this action? I must say I am surprised.

Mr. COOK. What I am suggesting is that this is a classic example of where, no matter what kind of assessment we made, we simply couldn't come up with the right formula. It is just very difficult to do; congressional mandate or not.

Mr. ASHLEY. Well, it is difficult to do as we are structured at the present time. There is no question about that.

Here are the questions I will put to you by request: With everyone agreed—and I think everyone is agreed—that log exports are not the real problem and that increasing the cuts from the Federal forests is the real and only answer, why does the Forest Service diddle around with a study?

Mr. HAIR. Well, after Mr. Dunlop made that announcement about the increase in the harvest from the national forests, there was an inter-departmental group formed to determine how that could best be carried out. As I said earlier it involved questions about funding, manpower, and where this investigation will take place, on the specific national forests that we will have to increase their sales offer, so it is this kind of work that is now under way.

Mr. ASHLEY. I was not aware that Dr. Dunlop, who is a good personal friend of mine and whom I respect highly, I was not aware that he was a member of the administration so when it is said that when Dr. Dunlop stated what he did, then there was an inter-departmental agency meeting to take up the reins, well, I really am a little at a loss to understand how policy is formulated. It would seem to me that Dr. Dunlop, were there any significant policy directions, would be following those or at least be aware of them. So to say that the administration has been following the words of somebody who came in from Harvard on a temporary basis to run a price control phase 3 operation and that Dr. Dunlop has ignited policy considerations, that strikes me as really most surprising.

Mr. IOANES. Mr. Chairman, I have been to some of those meetings with these people. They do ignite things. Dr. Dunlop is an appointee of the President in this very important area and I think it is his job to ignite and he does it. He really does it.

Mr. ASHLEY. Well, thank you very much. Your testimony has been illuminating and helpful to us.

The subcommittee will stand adjourned until further call of the Chair.

[The following statement was received by the subcommittee for inclusion in the record:]



PREPARED STATEMENT OF NORMAN LAVIN AND FRED ROTHSCHILD, COCHAIRMAN  
OF THE JOINT GOVERNMENT LIAISON COMMITTEE, ASSOCIATION OF BRASS AND  
BRONZE INGOT MANUFACTURERS, BRASS AND BRONZE INGOT INSTITUTE

Mr. Chairman, the Joint Government Liaison Committee appreciates this opportunity to present its views in support of enactment of H.R. 5769, a bill to amend the Export Administration Act of 1969.

The Joint Government Liaison Committee is composed of the Association of Brass and Bronze Ingot Manufacturers and the Brass and Bronze Ingot Institute. The members of these two trade associations represent approximately 80% of the brass and bronze ingot produced in the United States. Our industry serves an important role in the economy by recycling each year over 250,000 tons of copper and other nonferrous waste and scrap. From this waste and scrap we produce brass and bronze ingot—an economic raw material used by the nonferrous foundry industry to produce castings.

We believe that enactment of H.R. 5769 will provide new jobs in the United States and help to improve the balance in trade. Each year United States industry consumes more copper than is produced in this country. Therefore copper must be imported to take care of our needs and in addition to replace all copper that is exported. In order to provide more jobs in the United States, exports of copper should be in finished goods and *not* raw material such as copper base scrap. When copper base scrap is exported and finished products containing copper are imported, which is now the case, the United States is in effect exporting jobs and also contributing to the trade deficit.

#### BACKGROUND ON EXPORT CONTROL ON COPPER BASE SCRAP

For more than 30 years, until January 27, 1972, exporters of copper base scrap were required to obtain validated export licenses from the Department of Commerce before making export shipments. For the past three years the authority for this licensing was contained in the Export Administration Act of 1969. Also under the authority of this Act, until September 3, 1970, exports of copper base scrap were subject to quantitative quota controls. We fully supported these export controls and believe that the removal of the controls in September 1970 and January 1972 was premature and not in the best interest of our nation.

Exports of copper base scrap were permitted to increase from 39,000 copper-content short tons in 1962 and 1963 to 94,000 short tons in 1964 and 79,000 short tons in 1965 before the Government placed quantitative quotas on exports. During the same period prices of scrap, as reported by the Bureau of Labor Statistics, increased 50%. We believe that the imposition of quantitative controls was fully justified at a much earlier date than November 1965.

Even with quantitative export controls in effect, exports continued to increase and reached 97,000 short tons during 1968. This increase was due to a major loop-hole in the Department of Commerce regulations which permitted unlimited exports of copper base scrap to Canada. At the time exports of scrap from the United States to Canada were growing at a rapid rate, exports from Canada to Europe and Japan were increasing at a similar rate. This loop-hole was not closed until December 1968 after exports to Canada had increased from 1,000 short tons in 1965 to 19,000 short tons in 1968. Again, we believe that there was too great a delay in taking action to close a major loop-hole.

#### UNTIMELY REMOVAL OF EXPORT CONTROLS

Quantitative export controls were removed September 3, 1970 and exports of copper base scrap during the fourth quarter of 1970 increased to 39,000 short tons which was the highest since the fourth quarter of 1964. This action by the Depart-

ment of Commerce was followed on January 27, 1972 by the removal of the requirement for validated licenses to export copper base scrap. As noted above, this requirement had been in effect for more than 30 years.

The action to remove the validated license requirement was taken on January 27, 1972 even though there was a sharp increase in the exports of copper base scrap in December 1971.

#### NEED FOR CONTROLS NOW

During the first quarter of this year (1973) the supply-demand of copper base alloy scrap has become extremely critical. As shown on the attached chart, there has been a sharp increase in exports of copper base alloy scrap and a corresponding increase in the domestic price. Exports of copper base alloy scrap during January of 10,770,425 pounds was in line with the average monthly exports during 1972. The February exports were 40% higher than January, and March exports were 18% higher than February. The March exports of 17,755,093 pounds were higher than any month since April 1971.

The average price of heavy yellow brass scrap as reported by the Bureau of Labor Statistics was 22¢ a pound during January. The average price during March was 30.5¢ a pound, a 39% increase in two months. The price of scrap has continued to increase since March, but BLS statistics are not available. There has been a similar increase in the price of No. 1 Composition scrap which is also included in the reports of the BLS.

#### POSITION OF DEPARTMENT OF COMMERCE

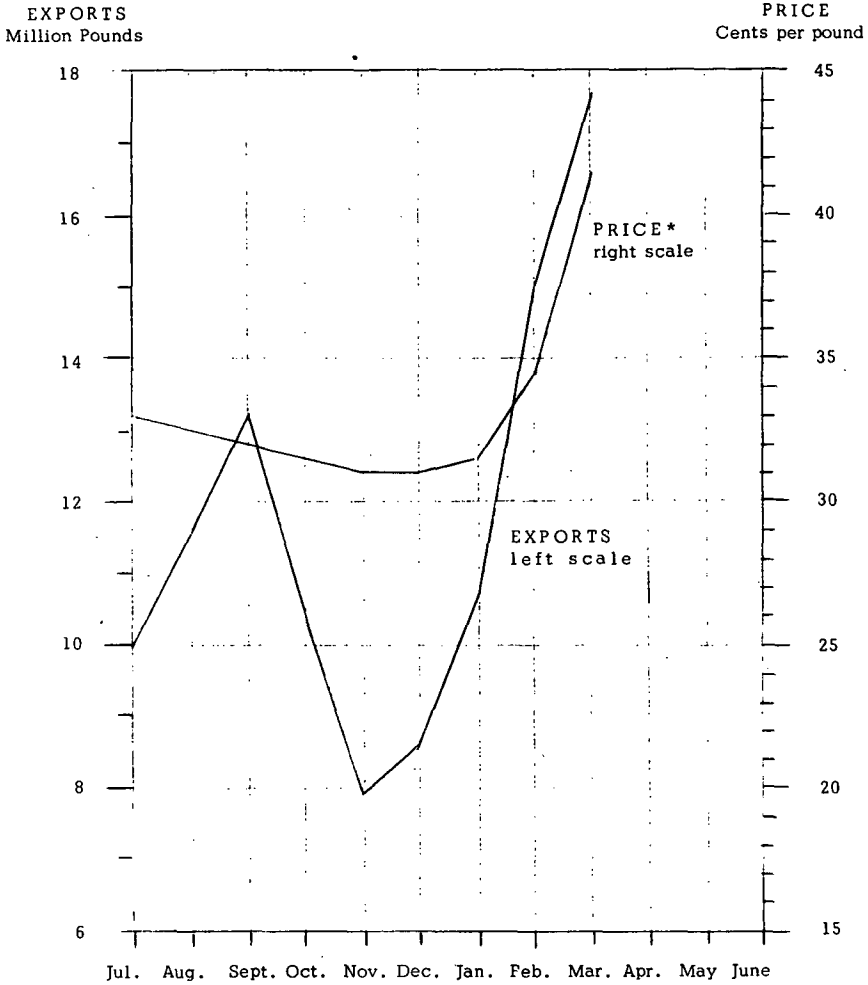
We have presented these facts to the Department of Commerce and urged that export quotas be established for copper and copper base scrap. Attached are copies of letters of March 19 and April 3 to Secretary of Commerce Dent. In testimony presented before this subcommittee on May 15 a Department of Commerce witness very clearly stated the Department's position on export controls when he said they should be used sparingly. He added that they constitute an impediment to free trade and have an adverse impact on our balance of trade and should be imposed only when the national interest clearly outweighs these conditions.

As noted above, we do not believe that export controls on copper and copper base scrap would have an adverse impact on the U.S. balance of trade, but would in fact have a beneficial impact. However, more importantly, we do not believe that the Department of Commerce is applying the provisions of the Export Administration Act as it was intended by the Congress.

Taking the Department's conditions for assessing the need for short supply controls (i.e., is the commodity in short supply domestically and under serious inflationary pressure, and are these conditions attributable to abnormal foreign demand?) we find affirmative answers to each of the three factors. (1) Short supply? Yes, the U.S. is a net importer of copper. In 1972 the U.S. imported 415,618 tons of ore, concentrates, matte, blister, and refined copper, and exported 234,546 tons—a deficit of 181,072 tons. (2) Inflationary pressure? Yes, prices increased 39% from January to March which was a much more rapid increase than the wholesale price index, industrial commodities index or even the non-ferrous metal index. (3) Abnormal foreign demand? Yes, an increase of 65% in exports from January to March.

In view of the reluctance of the Department of Commerce to use the present authority of the Export Administration Act of 1969, we believe that it is essential that the Act be amended to make it more explicit as to when controls will be implemented. H.R. 5769 is a step in this direction and we fully support this legislation.

MAY 1973.



COPPER BASE ALLOY SCRAP - EXPORTS and PRICE\*

\*Ingot makers buying price for No. 1 composition scrap

Source: Exports - Department of Commerce

Price - Department of Labor

BRASS AND BRONZE INGOT INSTITUTE,  
Chicago, Ill., March 19, 1973.

HON. FREDERICK B. DENT,  
*Secretary of Commerce,*  
*Department of Commerce, Washington, D.C.*

DEAR MR. DENT: The members of the Brass and Bronze Ingot Institute respectfully request and urge that the Department of Commerce adopt a program requiring validated export licenses for export shipments of copper and copper base scrap. Because of the present condition of the world copper market and the serious inflationary impact on the United States market we believe that there should be no delay in instituting such a program so that your department and other interested parties will have information on the quantities of scrap being sold for export before the scrap leaves the United States. At the present time the only official information on the quantity of exports is that issued by the Bureau of the Census and this information on actual exports is issued from three to eight weeks after the scrap has left the United States. It is only with the knowledge of proposed exports that the Department of Commerce can be in a position to move in a timely manner if it is necessary to impose export quotas or take other action to protect the domestic economy from an excessive drain of copper and copper base scrap.

Before the Department of Commerce removed the requirement for validated export licenses for copper and copper base scrap in January 1972, we strongly recommended that the licensing requirement be maintained. We urged that the licensing be retained because of the volatile copper supply-demand situation. The quick changing situation we predicted in December 1971 has developed during the past six weeks.

The American Metal Market on February 21 quoted a West Coast broker dealer commenting on the copper market as follows: "It's really hard these days to get a good fix on the market." The next day the paper reported: "Copper scrap jumps 4¢ in Houston." On February 26 the American Metal Market reported the principals of Rudolf Wolff & Co., a well-known London based metal trading firm, saying the world copper market will continue strong and as far as price is concerned the red metal will remain the most explosive of all the base metal commodities. Philip Jevons, Chairman of the Wolff firm, said "Copper's price could well go to 80¢ again." He added that it was his understanding that the Chinese of late have been purchasing an enormous amount of copper from other than their normal source (Chile). Mr. Jevons noted that Chile is virtually in a state of collapse and that quality-wise the Chilean copper is in a terrible state. He also pointed to the political trouble in Zambia and the strike at the Olen Refinery in Belgium as cutting back the supply of copper while the demand has been steadily growing.

The February 28 American Metal Market, in an article datelined St. Louis, reported a 3.5¢ gain in the price of No. 1 and No. 2 heavy copper. An article in the March 5 issue of the Wall Street Journal reported that the consensus of dealers and brokers in New York and London is that the heavy copper demand will continue to exert strong upward price pressure in the weeks ahead. It was stated in the article that big producers have already sold most of the copper expected to be available through the first half of this year and quoted a spokesman for one major company as follows: "Demand has been so huge we were forced to allocate copper to regular customers only on the basis of their historical buying."

Also on March 5 the American Metal Market reported a Baltimore scrap dealer saying that it's possible that the price of copper scrap could go to 90¢ a pound. The dealer noted that the bullish rise in copper scrap prices has made nonferrous wholesalers so cautious that they are holding on to their scrap.

We cite the above articles to point out what others are saying about the condition of the market. The report on free world refined copper stocks at the end of January did not add much hope to a change in the chaotic conditions in the scrap market. The Copper Institute reported that refined copper stocks at the end of January had dropped a substantial 63,658 tons from the end of December and that primary copper output in January was off 3,983 tons from December.

The recent action by the United States to devalue the dollar makes United States copper and copper scrap cheaper to foreign buyers. We realize that it is a basic policy of the government to encourage American exports, but we hope that it will not be at the expense of more inflation in the United States. The Export

Administration Act of 1969 states that it is the policy to use export controls to reduce the serious inflationary impact of abnormal foreign demand.

We know that the foreign price of copper is substantially higher than the domestic producer's price. We know that the exports of copper base scrap increased 25% from December 1972 to January 1973. We know that the price of brass ingot maker's scrap has increased more than 25% during the past six weeks. But what we don't know is how much scrap has been exported since the first of February and if it is exports that have caused the current inflationary impact.

The only practical way to get current information on proposed exports is by requiring validated export licenses. We realize that the requirement for validated licenses places a "burden" on exporters. However, exporters of copper and copper base scrap were under this "burden" for 30 years prior to January 1972. This "burden" must be weighed against the advantage of having current data on exports. Exporters are faced with a certain amount of paper work in every transaction they handle, such as bills of lading, letters of credit, and shipper's export declarations, and requirement for the issuance of a validated export license did not cause a great hardship during the 30 years licenses were required. At the time the validated license requirement was terminated the Office of Export Control was processing license applications in four or five days. Therefore, we believe that the advantages for requiring validated export licenses far outweigh the disadvantages. It would appear that it would be extremely difficult to exercise the authority under the Export Administration Act of 1969 without current information on exports. At the present time thousands of tons of scrap could be exported from the United States before the increase in exports could be documented by statistics issued by the Bureau of the Census. We believe it is essential that complete information be available on anticipated level of exports so that if it is necessary to control exports, it can be done before the damage occurs.

We recommend and urge that validated licenses be required for all exports of copper and copper base scrap.

Sincerely yours,

NORMAN LAVIN,  
*President.*

BRASS AND BRONZE INSTITUTE,  
*Chicago, Ill., April 3, 1973.*

HON. FREDERICK B. DENT,  
*Secretary of Commerce,*  
*Washington, D.C.*

DEAR MR. DENT: Reference is made to my letter of March 19 requesting on behalf of the Brass and Bronze Ingot Institute that the Department of Commerce adopt a program requiring validated export licenses for shipments of copper and copper base scrap. I pointed out in my letter the need of such a program so that the Department of Commerce would have knowledge of proposed exports before the scrap actually left the United States.

The data issued by the Bureau of the Census on exports during February confirmed our worst fears for the need of such a program. Even though February was a short month, exports of copper base alloy scrap were 40% higher than during January and the highest for any month since March 1972. Exports of copper scrap increased over 66% from January to February. These increases in exports were accompanied by a sharp rise in the price of brass ingot maker's scrap as noted in my letter of March 19. These extremely sharp increases in exports point to the need now for a program to monitor these exports. We don't know how much scrap was exported during March and this data will probably not be available for at least another three weeks.

In view of the sharp increase in exports and the high level of exports during February, we recommend and urge that export quotas be immediately established for copper and copper base scrap. It is estimated that the 17,684,272 pounds of copper and copper base scrap exported during February contained 13,635,000 pounds of copper content. This is almost 2½ times the scrap export quota that was available each month during 1966 and 1967. The February exports of copper and copper base scrap were equivalent to approximately 30% of the scrap consumed by the domestic ingot makers.

Section 3 (2) (A) of the Export Administration Act of 1969 As Amended states that it is the policy of the United States to use export controls "to reduce the serious inflationary impact of abnormal foreign demand." The Bureau of the Census data on actual exports during February confirms that there is an ab-

normal foreign demand for copper and copper base scrap. In my letter of March 19 I pointed out the serious inflationary impact on the domestic scrap market. There has been no improvement since mid-March and scrap prices have continued to increase since that time.

The United States is a net importer of copper and each pound of copper exported as scrap or in any other form must be replaced by imported copper. Therefore, the export of copper and copper base scrap does not help the serious United States balance of payments problem. In fact, the exporting of scrap and importing of products containing copper results in a negative effect on the United States balance of payments. We believe that we should encourage the export of manufactured products and not basic raw materials such as copper and copper base scrap which are in short supply.

The situation fully warrants the implementing of the provisions of the Export Administration Act with the establishment of export quotas. The establishment of the quotas would be fully compatible with the national policy on environmental controls and conservation of energy. We believe that it is clear that the impact on the environment of producing a pound of ingot from scrap is far less than the impact of producing ingot from virgin metal. The use of scrap does away with the environmental impact caused by mining and smelting ore. It also saves a valuable finite natural resource. The recycling of scrap is a definite benefit to solving the growing solid waste problem. In addition, there is substantial savings of energy because less energy is consumed in recycling scrap into ingot than would be used in producing ingot from virgin metal.

In my letter of March 19 I pointed out the drop in refined copper stocks during January as well as the drop in primary copper output. This trend continued during February for the fourth straight month. Free world refined copper stocks declined 35,184 tons during February, and refined copper output during February was 12,892 tons lower than January.

In view of the critical situation—caused by unlimited exports—in the supply of copper and copper base scrap, we recommend and urge that realistic export quotas be established for copper and copper base scrap.

Sincerely yours,

NORMAN LAVIN,  
*President.*

[Whereupon, at 12:30 p.m., the subcommittee recessed subject to the call of the Chair.]

